

GFI rebounds in January but signs of weakness remain on the horizon

- **Gross fixed investment (January): 1.6% yoy (nsa); Banorte: 0.3%; consensus: -2.0% (range of estimates: -2.0% to 1.1%); previous: -6.8%**
- **The rebound in January was driven by a strong increase in construction (+2.9% yoy), particularly in the residential sector, as well as imported M&Eq (+2.3%)**
- **In the monthly comparison, GFI surged 8.0% m/m after falling 1.0% in the previous month**
- **We maintain our view that investment will weaken in 2019, estimating an outright contraction after growing 0.6% in the previous year**

GFI increased 1.6% yoy in January, stronger than consensus. GFI returned to positive territory in January at 1.6% yoy after two consecutive months in contraction. This result was driven by a strong increase of 2.9% in construction due to a pick-up of 6.9% in the residential sector, more than enough to compensate for non-residential at -0.7%, which added four months in contraction territory. This was higher than the 1.7% advance suggested by the industrial production report. On the other hand, machinery and equipment stayed negative at -0.2%, limited by weakness in the domestic component (-4.6%) despite a moderation in its rate of decline. In contrast, imported M&Eq stood at 2.3% after the strong 7.7% decrease in December. Nevertheless, the trade balance report for February suggests that this rebound could be short-lived, as capital goods imports fell 5.5% in the month, weakest in its annual comparison since April 2017.

Despite today's report showing relatively positive signs, particularly regarding construction activity, we believe that the weak outlook for investment prevails. In this respect, lower prospects for global and local economic growth, limited business confidence, and relatively high funding costs will likely be headwinds for stronger dynamism.

Gross fixed investment

% yoy, nsa

	Jan-19	Jan-18	2018	2017
Total	1.6	3.7	0.6	-1.6
Construction	2.9	2.3	-0.3	-3.0
Residential	6.9	7.2	1.9	1.9
Non-residential	-0.7	-1.7	-2.4	-7.0
Machinery and equipment	-0.2	5.9	1.8	0.4
Domestic	-4.6	-3.9	-5.0	-2.7
Transportation equipment	-1.7	-9.3	-7.0	-6.6
Other machinery and equipment	-8.2	3.8	-2.0	3.9
Imported	2.3	12.4	6.5	2.6
Transportation equipment	6.2	-6.1	5.0	1.2
Other machinery and equipment	1.7	15.9	6.7	2.8

Source: INEGI

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In the monthly comparison, GFI surged 8.0% m/m. In our view, this is also related to a positive base effect, as GFI plunged by 3.7% and 1% in the previous two months. Nevertheless, both construction and M&Eq were positive at 5.3% and 9.6%, respectively, with the latter supported strongly by the increase of 11.1% in the imported component. In construction, we highlight the residential sector at 5.7%, although non-residential (related to infrastructure projects) was also up at 3.6%. The 3m/3m saar rate stayed in negative territory at -4.8%, improving from the very weak print of -10.9% observed in December.

Gross fixed investment

% m/m sa, % 3m/3m saar

	% m/m			% 3m/3m saar	
	Jan-19	Dec-18	Nov-18	Nov'18-Jan'19	Oct-Dec'18
Total	-0.7	-3.5	0.0	-12.5	-9.7
Construction	0.7	-1.8	-0.1	-5.3	-5.9
Residential	2.3	-2.5	2.3	3.4	0.0
Non-residential	-0.9	-0.7	-2.6	-12.7	-10.9
Machinery and equipment	-3.8	-4.1	-1.1	-22.1	-14.2
Domestic	0.2	-4.6	-4.8	-26.4	-23.7
Transportation equipment	3.8	-12.8	-6.6	-47.0	-40.5
Other machinery and equipment	-0.8	1.6	-3.1	-6.3	-7.0
Imported	-6.6	-3.7	0.2	-17.9	-2.0
Transportation equipment	-4.1	-10.8	19.1	23.1	9.4
Other machinery and equipment	-5.6	-2.7	-2.5	-22.2	-3.6

Source: INEGI

Overall, today's report does not modify our view that investment will remain limited and weak in coming months. We maintain our call that investment will slow down in 2019, even estimating an outright contraction after growing 0.6% in the previous year. First and foremost, overall economic activity, both locally and globally, is indeed exhibiting signs of moderation, with our GDP forecast for this year at 1.5% yoy. Additionally, dynamism could be lower than in 2018 as the latter year was partially benefitted by the electoral season, which is typically associated with higher infrastructure spending.

Moreover, financing costs are higher and are not expected to start declining at least until the second half of the year, making it harder for companies to develop existing or potential opportunities. Business confidence has stayed muted, with the component measuring the adequate moment to invest still relatively low and in deep contrast with consumer sentiment. In particular, average levels in 1Q19 are lower than those of the previous quarter and have not been able to reverse the steep fall observed during the last months of the year. In conclusion, it is our take that investment is likely the most vulnerable component of aggregate demand, in our view front-loaded to the first half of the year on a slowdown in the public sector driven by change of Federal administration, while the most resilient will probably still be private consumption.

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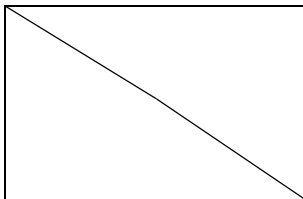
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