

# GFI increase in July, benefited by lower uncertainty

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- **Gross fixed investment (July): 5.0% yoy (nsa); Banorte: 6.3%; consensus: 6.7% (range of estimates: 2% to 8.8%); previous: 10.6%**
- **This increase was mainly explained by an expansion in imported machinery and equipment, although there was also a healthy expansion in residential construction**
- **In the monthly comparison, GFI edged-up 1% m/m (seasonally adjusted). With this figure, GFI grew 1.7% 3m/3m saar after two consecutive months in contraction, with all major components shifting to positive territory**
- **In our opinion, investment will improve in 3Q18 as a result of lower domestic uncertainty, although the global backdrop remains challenging amid trade tensions challenging growth prospects**

**GFI increases 5% yoy in July, below expectations.** This expansion was explained by growth of 7.8% in machinery and equipment, in addition to the 2.8% rise in construction. Within the former, the figure was driven by the 14.9% surge in the imported component, which may have been driven by the appreciation of the Mexican peso during the month. However, the domestic component posted a 2.1% contraction. Within construction, the increase was motivated by the substantial increase in residential projects (+5.1%). The sector's growth was weaker than the 4.5% expansion seen in the industrial production report. Nevertheless, we believe it was positive given the muted performance observed in the two previous months. In this regard, the reading is consistent with a pickup in activity as a result of lower domestic uncertainty, in tandem with higher optimism according to business confidence in this sector.

**Gross fixed investment**

% yoy, nsa

	Jul-18	Jul-17	Jan-Jul, '18	Jan-Jul, '17
<b>Total</b>	5.0	0.0	3.0	-1.3
<b>Construction</b>	2.8	-4.2	0.9	-4.5
Residential	5.1	-0.8	3.7	1.0
Non-residential	0.6	-7.2	-1.8	-9.2
<b>Machinery and equipment</b>	7.8	6.0	5.9	3.6
Domestic	-2.1	9.1	1.4	3.6
Transportation equipment	-3.0	7.0	-2.3	1.3
Other machinery and equipment	-0.8	12.3	7.1	7.4
Imported	14.9	3.9	9.0	3.5
Transportation equipment	14.3	4.1	5.9	9.2
Other machinery and equipment	15.0	3.9	9.6	2.6

Source: INEGI

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**In the monthly comparison, GFI edged-up 1% m/m in July (seasonally adjusted).** This figure compares favorably with the 0.2% contraction of the previous month and was above the 0.2% average monthly increase so far in 2018. With this, the 3m/3m saar increase climbed to 1.7%, after two months in contraction. In this regard, both construction and machinery and equipment have shifted to positive territory, suggesting a generalized improvement in investment despite relevant differences in the underlying behavior among components.

**Gross fixed investment**  
% m/m sa, % 3m/3m saar

	% m/m			% 3m/3m saar	
	Jul-18	Jun-18	May-18	May-Jul'18	Apr-Jun'18
<b>Total</b>	<b>1.0</b>	<b>-0.2</b>	<b>1.2</b>	<b>-2.3</b>	<b>1.7</b>
<b>Construction</b>	<b>0.7</b>	<b>1.7</b>	<b>0.0</b>	<b>-6.3</b>	<b>0.3</b>
Residential	2.3	0.8	-1.0	-10.8	-5.0
Non-residential	-0.7	2.0	0.1	-0.7	3.6
<b>Machinery and equipment</b>	<b>1.7</b>	<b>-1.0</b>	<b>1.0</b>	<b>-0.1</b>	<b>0.1</b>
Domestic	-2.7	-0.5	4.1	6.2	4.7
Transportation equipment	-3.2	1.2	6.9	17.8	18.7
Other machinery and equipment	-1.3	-2.6	2.3	-9.1	-8.9
Imported	3.8	0.1	-0.9	-3.9	-1.4
Transportation equipment	0.3	4.7	-5.3	17.0	3.0
Other machinery and equipment	6.6	-1.6	-0.3	-6.6	-0.5

Source: INEGI

**The rebound in investment suggests and improved short-term outlook, although uncertainty prevails along with higher financing costs globally.** In this regard, today's report increases our optimism about the possibility of a sooner-than-expected recovery in investment, which we believed would have taken longer to materialize. However, it is worth noting that this is only a tentative sign, so we are waiting for additional information to confirm an upward trend in investment that was impacted by domestic uncertainty, in particular in 2Q18. On the upside, we highlight that capital goods imports in August maintained a relatively good performance (+9.3%), besides a further improvement in business confidence in the same month. Moreover, we believe that the trade agreement between Mexico and the US, and its positive impact on the Mexican peso, could also support investment in the short term.

Nevertheless, the global backdrop remains highly uncertain, in particular due to the ongoing trade war between the US and China, hindering growth prospects. Lastly, we have seen strong pressures in global rates in recent days, specifically in the US given a vigorous economy which has convinced the Fed to reaffirm its less accommodative stance despite signs of a slowdown in the rest of the world. In this sense, greater downside risks for growth and pressures on financing conditions could negatively impact investment, despite the positive effect of lower domestic uncertainty, consistent with our view of a moderate improvement in investment during 3Q18.

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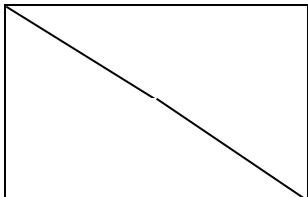
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