

## GFI expanded modestly in 2Q18

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- **Gross fixed investment (June): 1.4% yoy (nsa); Banorte: 2.2%; consensus: 2.2% (range of estimates: 0.8% to 3.8%); previous: 0.9%**
- **Year to date, GFI has expanded 2.7% yoy vs. the 1.5% contraction in same period last year**
- **In seasonally adjusted terms, GFI edged down 0.2% m/m, implying an annualized quarterly decrease of 2.5%**
- **In our opinion, GFI is going to take more time to recover in the midst of a still highly uncertain backdrop**

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**GFI up 1.4% in annual terms, below expectations.** This result was explained mainly by the 2.4% yoy increase in investment in machinery and equipment, while in the construction sector, investments increased 0.5%. Year to date, this rate implies an expansion of 2.7% during the first six months of the year, stronger than the 1.5% decrease in the same period of last year, as shown in the table below.

**Gross fixed investment**  
% yoy, nsa

	Jun-18	Jun-17	Jan-Jun, '18	Jan-Jun, '17
Total	1.4	-0.8	2.7	-1.5
Construction	0.5	-2.6	0.6	-4.6
Machinery and equipment	2.4	1.4	5.6	3.2
Domestic	0.8	-6.4	-2.2	-9.5
Imported	3.6	-0.4	8.0	3.5

Source: INEGI

**In seasonally adjusted figures, GFI decreased 0.2% m/m in June.** According to *INEGI's* report, gross fixed investment posted a 0.2% m/m contraction during the sixth month of the year. This figure was explained by a 0.9% decrease in machinery and equipment investments, while the construction sector increased 1.6%. In the first case, the reduction comes on the back of lower levels of machinery and equipment other than transportation, both in the domestic and imported categories. In construction, non-residential investment was up 2.3% while residential investment increased 0.6%. With these figures, GFI contracted 2.5% q/q saar in 2Q18 after surging 13.9% in the previous quarter, basically on the back of the decline in residential construction (-11.9% q/q saar), as shown in the table below.

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**Gross fixed investment**

% m/m sa; % 3m/3m saar

	Jun-18	May-18	Apr-18	2Q18	1Q18
<b>Total</b>	<b>-0.2</b>	<b>1.1</b>	<b>-1.1</b>	<b>-2.5</b>	<b>13.9</b>
<b>Construction</b>	<b>1.6</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-6.8</b>	<b>5.2</b>
Residential	0.6	-1.2	-0.1	-11.9	11.9
Non-residential	2.3	0.2	-0.4	0.1	-2.9
<b>Machinery and equipment</b>	<b>-0.9</b>	<b>0.8</b>	<b>-2.3</b>	<b>-0.5</b>	<b>28.7</b>
Domestic	-0.3	4.3	-5.5	8.0	33.2
Transportation equipment	1.6	7.1	-5.9	20.0	57.3
Other M&Eq	-2.4	2.5	-6.4	-8.1	13.6
Imported	-1.0	-1.1	-1.1	-6.8	24.9
Transportation equipment	4.6	-5.5	1.9	16.3	6.3
Other M&Eq	-1.7	-0.5	-0.6	-7.8	25.2

Source: INEGI

**In our view, GFI in June is consistent with our recent downward revision to GDP growth in 2018, from 2.5% to 2.1% yoy.** High of uncertainty in the first half of the year has weighted on investment, particularly in the construction sector. Moreover, FX depreciation -which peaked in June at USD/MXN 20.87-, could have impacted investment in imported machinery and equipment. Looking ahead, we believe investment has still a long way to recover amid a highly uncertain backdrop. Nevertheless, as question marks about the outlook are gradually answered, as it has been the case in terms of the NAFTA renegotiation, we would expect GFI to respond more favorably.

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