

GFI – November’s 0.4% yoy contraction explained by the decline in construction investment

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- **Gross fixed investment (November): -0.4% yoy; Banorte-Ixe: 0.5%; consensus: 0.5% (range of estimates: -0.6% to 2%); previous: 1%**
- **Investment in construction projects fell 3.9% as a result of a 7.3% yoy reduction in non-residential construction**
- **In seasonally adjusted terms, GFI decreased 2.2% m/m**
- **Looking ahead, we believe that GFI figures will show a significant deceleration in 1Q16**

Lower investment in non-residential construction projects. According to *INEGI's* report, gross fixed investment in November posted a 0.4% yoy contraction, below our 0.5% forecast (consensus: 0.5%). Taking a look at the breakdown, investment in domestic machinery edged-up 1.6% yoy, while the imported component increased 7.5% yoy, despite the significant depreciation of the Mexican currency. However, the construction sector decreased 3.9%, as a result of a 7.3% reduction in non-residential construction investment. Moreover, residential construction increased a scant 0.5% yoy, as shown in the table below. Year-to-date, GFI now adds a 4.1% yoy expansion.

Gross fixed investment: November 2015

%yoy	Nov-15	Nov-14	Jan-Nov, '15	Jan-Nov, '14
Total	-0.4	5.5	4.1	2.6
Construction	-3.9	3.0	1.1	1.1
Residential	0.5	6.7	3.7	2.4
Non-residential	-7.3	0.2	-0.8	0.1
Machinery and equipment	5.5	10.2	8.9	5.2
Domestic	1.6	15.5	8.3	4.2
Transportation Equipment	2.4	23.2	10.9	7.9
Other machinery and equipment	0.7	8.1	5.8	1.0
Imported	7.5	7.7	9.1	5.6
Transportation Equipment	-1.8	-9.9	-0.2	-4.0
Other machinery and equipment	8.8	10.9	10.5	7.1

Source: INEGI

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In seasonally adjusted terms, investment decreased 2.2% m/m in November. Investment in domestic machinery and equipment edged-down 1% m/m, while the imported component decreased 2.1% m/m. Finally, investment in the construction sector decreased 1.3% m/m, as shown in the table below.

Gross fixed investment: November 2015

%m/m sa	Nov-15	Oct-15	Difference
Total	-2.2	-1.3	-0.8
Construction	-1.3	-0.8	-0.5
Machinery and equipment	-1.8	-0.9	-0.9
Domestic	-1.0	1.7	-2.7
Imported	-2.1	-2.8	0.7

Source: INEGI

Looking ahead, we believe that GFI figures will show a significant deceleration in 1Q16. Moderate growth in GFI during the last three reports has been explained by the contraction in construction investment. While residential construction has maintained a favorable performance, non-residential construction exhibited a sharp drop as a result of the decrease in public projects' investment given the fiscal cut implemented by the Federal Government. In addition, the Federal Government's revenue for 2017 will be affected by persistently low crude oil prices. In this regard, we do not rule out another fiscal cut in 2016 public spending in order to safeguard Mexico's healthy public finances. Taking these factors into account, we now believe that gross fixed investment figures for 1Q16 could be impacted by the possibility of these additional public spending cuts, which could be announced in coming months.

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