

GFI contracted again in February

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- **Gross fixed investment (February): -1.9% yoy (nsa); Banorte: -3.2%; consensus: -2.5% (range of estimates: -4.9% to 0.1%); previous: 1.6%**
- **The dip in February was driven by the 4.8% decline in machinery and equipment, concentrated mostly in the domestic component (-6.8%). On the other hand, construction stood flat**
- **GFI fell 2.5% m/m after the 8.0% advance observed in the previous month, suggesting the latter increase could have been transitory**
- **We believe investment will remain muted, likely affected by high uncertainty and low growth prospects for GDP this year. We maintain our view that investment will contract in 2019**

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GFI decreased 1.9% yoy in February, better than consensus. After rebounding in January, GFI fell back to negative territory at -1.9% yoy. We note that this is the third out of the last four months in which GFI contracts in the annual comparison. This was driven by a strong reversal in machinery and equipment, which stood at -4.8% after a strong advance of 6.1% in the previous month. The domestic component fell 6.8%, while imported M&E saw a more modest decline of -3.6%. It is worth mentioning that the latter figure was stronger than implied by the 5.5% fall in capital goods imports according to the trade balance report, which was its weakest since April 2017. On the other hand, construction managed to stay flat, contrary to our expectations of a 1.5% decline. As expected, non-residential investment fell for a fifth consecutive month at -0.9%, in our view driven by typically lower government spending at the start of a new Federal administration. In contrast, the residential sector grew 0.8%.

In our view, the report shows sluggishness in investment despite being above consensus and stronger than signaled by trade balance figures. Moreover, March data showed that capital goods imports declined 5% and government spending in fixed capital investments has stayed weak. Overall, we maintain our view that the outlook for investment remains challenging.

Gross fixed investment

% yoy, nsa

	Feb-19	Feb-18	Jan-Feb'19	Jan-Feb'18
Total	-1.9	4.4	-0.1	4.1
Construction	0.0	3.4	1.4	2.8
Residential	0.8	11.0	3.3	9.1
Non-residential	-0.9	-3.4	-0.4	-2.6
Machinery and equipment	-4.8	6.1	-2.4	6.0
Domestic	-6.8	-2.0	-5.7	-2.9
Transportation equipment	-3.6	-4.7	-2.6	-7.0
Other machinery and equipment	-11.1	1.9	-9.6	2.9
Imported	-3.6	12.0	-0.5	12.2
Transportation equipment	11.2	3.1	8.6	-2.0
Other machinery and equipment	-5.9	13.5	-1.9	14.7

Source: INEGI

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In the monthly comparison, GFI fell 2.5%. This is the steepest fall since last November but came after the 8.0% advance observed in January, so the result is not surprising as it was very likely that it would pare back some of this outsized gain. Despite of this, the trend in recent months and advanced data suggests that the rebound in January was transitory. Both components fell, with construction at -2.3% and M&Eq at -2.0%. In the former, the residential sector decreased 1.5% while the non-residential (related to infrastructure projects) fell 2.2%, not enough to reverse the 4.7% gain of the previous month. Regarding the latter, the domestic component inched higher 0.6%, driven by transportation (+3.4%), but dragged by the imported component at -3.1%. The 3m/3m saar rate bounced to +4.1% from -4.9% in January, improving for the second consecutive month.

Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Feb-19	Jan-19	Dec-18	Dec'18-Feb'19	Nov'18-Jan'19
Total	-2.5	8.0	-0.9	4.1	-4.9
Construction	-2.3	5.3	1.6	12.9	5.5
Residential	-1.5	3.4	2.6	15.7	11.9
Non-residential	-2.2	4.7	-0.5	3.3	-2.5
Machinery and equipment	-2.0	9.6	-4.7	-8.1	-15.5
Domestic	0.6	4.8	0.9	-1.8	-15.1
Transportation equipment	3.4	13.3	3.6	6.0	-36.0
Other machinery and equipment	-2.5	-1.7	-0.9	-11.9	-4.9
Imported	-3.1	11.1	-7.1	-13.2	-16.1
Transportation equipment	5.5	3.8	-4.0	-7.0	-8.9
Other machinery and equipment	-5.4	12.1	-6.4	-12.3	-15.3

Source: INEGI

We believe investment will remain muted, affected by uncertainty and low GDP growth prospects. We highlight that YTD and using non-seasonally adjusted data, GFI has contracted 0.1% vs. the +4.1% advance in the same period of 2018. Considering this, we maintain our view that investment will contract in 2019, with sluggishness reestablished after last month's pickup. Moreover, and as mentioned above, data for March has stayed weak, with overall conditions still challenging. First and foremost, economic activity has moderated, with 1Q19 GDP at a weak -0.2% q/q and our full-year forecast of 1.5% yoy, below the 2.0% of the previous year. Although an improvement could materialize gradually as government spending picks up, it is our take that appetite from the private sector will stay contained given low growth prospects. Moreover, uncertainty over the ratification of USMCA has increased given the shift in US political dynamics after last year's mid-term election, a situation which could linger further down the road as the 2020 election in that country gets closer. Other factors that we believe could also limit investment include relatively high financing costs, which we do not expect to start declining at least until the second half of the year, making it harder for companies to develop existing or potential opportunities. Last but not least, business confidence has stayed muted, with the component measuring the adequate moment to invest still relatively low following the downfall that started in 4Q18.

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