

GFI – Fiscal cuts and FX depreciation behind October’s 0.9% yoy contraction

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- **Gross fixed investment (October): -0.9% yoy; Banorte-Ixe: -0.3%; consensus: 0.3% (range of estimates: -1.7% to 0.8%); previous: 0.7%**
- **GFI’s contraction was explained by the 8.6% yoy reduction in imported machinery and equipment coupled with the 2.6% contraction in non-residential construction output**
- **In seasonally adjusted terms, GFI fell 0.8% m/m**
- **Looking ahead, we believe that GFI will continue to fall as a result of:**
 - (1) The depreciation of the Mexican currency;**
 - (2) The fiscal cuts implemented by the federal government; and**
 - (3) The uncertainty surrounding the impact of Trump’s policies to the Mexican economy**

GFI posted a 0.9% reduction yoy in October. According to *INEGI’s* report, gross fixed investment in October posted a 0.9% yoy contraction, below our -0.3% yoy forecast (consensus: +0.3%; previous: +0.7%). Taking a look at the breakdown, investment in domestic machinery and equipment increased 7.6% yoy, while the imported component fell 8.6% yoy as a result of the accumulated depreciation of the Mexican currency.

In addition, investment in construction increased a scant 0.9% yoy, as a result of the 2.6% reduction in non-residential construction, which now adds seventeen consecutive months in contraction. In this context, the fall in non-residential construction investment reflects the fiscal cuts implemented by the Federal Government, which have also affected Mexico’s drilling and public investment projects (refer to the table below).

Gross fixed investment: October 2016
% yoy

%yoy	Oct-16	Oct-15	Jan-Oct, '16	Jan-Oct, '15
Total	-0.9	1.1	0.1	5.1
Construction	0.9	-1.3	-0.3	2.7
Residential	5.0	3.6	4.1	4.3
Non-residential	-2.6	-5.0	-3.8	1.4
Machinery and equipment	-3.5	4.8	0.8	9.1
Domestic	7.6	6.5	8.6	9.9
Transportation Equipment	12.6	9.4	14.5	15.4
Other machinery and equipment	2.0	3.4	2.4	4.7
Imported	-8.6	4.0	-2.8	8.7
Transportation Equipment	-2.5	3.4	2.3	0.9
Other machinery and equipment	-9.5	4.1	-3.4	9.8

Source: INEGI

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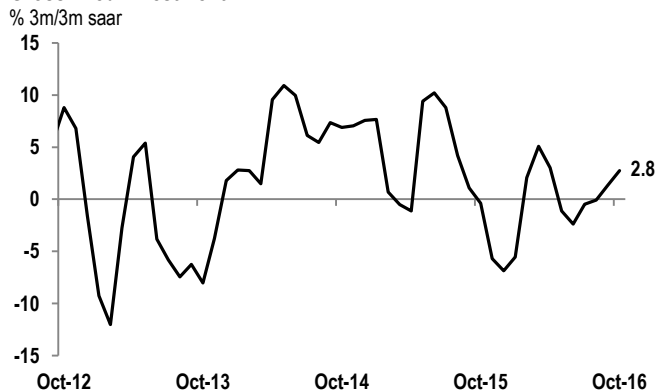
In seasonally adjusted terms, GFI decreased 0.8% m/m. Taking a look at the breakdown, investment in both domestic and imported machinery and equipment posted a 0.4% and a 11% m/m reduction. In addition, investment in the construction sector expanded 1.7% m/m. With today's figures, GFI posted a 2.8% 3m/3m saar growth. However, construction has fallen 2.7%, given the 2.7% reduction in non-residential construction (refer to the charts below).

Gross fixed investment: October 2016

% m/m			
%m/m sa	Oct-16	Sep-16	Aug-16
Total	-0.8	1.3	0.7
Construction	1.7	0.8	-0.8
Residential	1.4	3.9	-3.5
Non-residential	1.7	-1.6	2.6
Machinery and equipment	-6.5	5.4	1.9
Domestic	-0.4	4.3	0.2
Transportation equipment	-0.9	6.6	-0.3
Other M&Eq	0.8	0.4	0.5
Imported	-11.0	7.0	2.4
Transportation equipment	-19.4	5.6	29.1
Other M&Eq	-8.2	6.6	-0.4

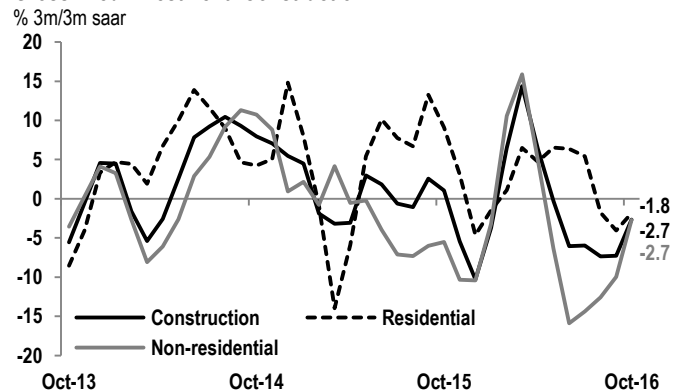
Source: INEGI

Gross fixed investment



Source: Banorte-IXE

Gross fixed investment: Construction



Source: Banorte-IXE

Looking ahead, we believe that GFI will continue to fall. We believe that GFI's outlook for the first quarter of the year will continue to deteriorate. In particular, construction output will probably be significantly lower, as a result of: (1) The decline in public investment projects, given the fiscal cuts implemented by the Federal Government; and (2) the additional budget cut in Mexico's oil and drilling projects, which has limited Mexico's oil production and infrastructure development. In addition, the strong depreciation of the Mexican has also affected Mexico's capital goods imports.

Looking ahead, we believe that investment flows will continue to reflect the adverse effects of the fiscal cuts implemented by the Federal Government and the depreciation of the Mexican currency. Similarly, it is likely that the uncertainty surrounding Trump's policies on the Mexican economy will also affect investment decisions in our country, particularly during the first quarter of the year.

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