

GFI grew a moderate 0.4% during 2016

March 3, 2017

- **Gross fixed investment (December): 0.9% yoy (nsa); Banorte-Ixe: 1.9%; consensus: 0.8% (range of estimates: -0.5% to 1.9%); previous: 2.8%**
- **GFI's expansion was explained by the 10% yoy expansion in domestic machinery and equipment (M&Eq)**
- **However, M&Eq imports fell 2.1% yoy, as a result of the depreciation of the Mexican currency**
- **Construction output posted a null growth given the 3.9% advance in residential construction coupled with the 3% contraction in non-residential construction output**
- **In seasonally adjusted terms, GFI grew 1.1% m/m**
- **In 2016, GFI posted a 0.4% yoy growth, lower than the 4.2% advance seen in 2015**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
 - (1) **The fiscal cuts implemented by the federal government;**
 - (2) **The volatility of the Mexican currency; and**
 - (3) **The uncertainty surrounding the impact of Trump's policies in the Mexican economy**

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GFI posted a 0.9% yoy expansion in December. According to *INEGI's* report, gross fixed investment in December increased 0.9% yoy, below our 1.9% yoy forecast (consensus: 0.8%; previous: 2.8%). Using calendar adjusted figures, GFI posted a 1.9% annual increase.

Taking a look at the breakdown, and using the original series, investment in domestic machinery and equipment increased 10% yoy, while the imported component fell 2.1% yoy as a result of the accumulated depreciation of the Mexican currency.

In addition, investment in construction posted a null growth, as a result of the 3% 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 on the next page). However, investment in residential construction increased 3.9% yoy.

In 2016, GFI posted a 0.4% yoy growth, lower than the 4.2% advance seen in 2015. The decline in the annual comparison was due to lower capital imports (-3.3% yoy) and lower non-residential investment (-3.7% yoy). The contraction of the latter is a result of the cuts in public spending on infrastructure, which is accounted for within this heading. However, investments in national machinery and equipment increased 9.2% annually, while residential construction increased 4.4% annually.

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Gross fixed investment: December 2016

% yoy; nsa

	Dec-16	Dec-15	2016	2015
Total	0.9	1.1	0.4	4.2
Construction	0.0	-2.3	-0.1	1.6
Residential	3.9	-3.0	4.4	3.3
Non-residential	-3.0	-1.7	-3.7	0.4
Machinery and equipment	2.3	6.5	1.2	8.5
Domestic	10.0	13.0	9.2	9.6
Transportation Equipment	14.3	27.3	14.9	15.7
Other machinery and equipment	4.5	-1.4	3.0	3.6
Imported	-2.1	3.1	-2.5	8.1
Transportation Equipment	13.7	-12.9	3.3	-0.4
Other machinery and equipment	-3.8	5.2	-3.3	9.3

Source: INEGI

In seasonally adjusted terms, GFI increased 1.1% m/m. Taking a look at the breakdown, investment in imported machinery and equipment posted a 3% increase, while domestic purchases grew 3.7%. In addition, investment in the construction sector fell 0.2% m/m. With today's figures, GFI posted a 2.7% 3m/3m saar growth. In addition, construction increased 5.8%, given the 13.9% growth in residential construction coupled with the 3.5% reduction in non-residential construction output (refer to the charts below).

Gross fixed investment: December 2016

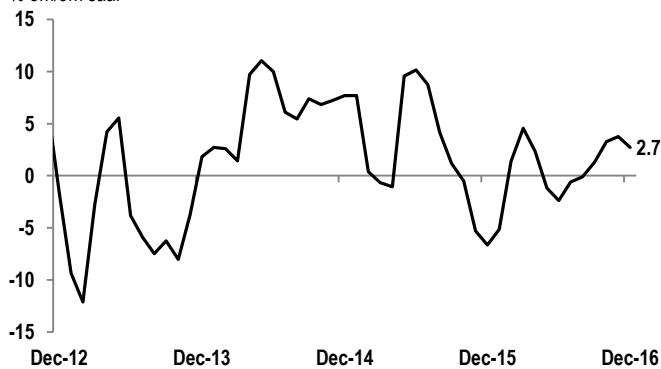
% m/m; sa

	Dec-16	Nov-16	Difference
Total	1.1	-0.2	1.3
Construction	-0.2	-0.7	0.4
Residential	-0.9	-0.9	0.0
Non-residential	0.5	0.1	0.4
Machinery and equipment	5.1	-1.6	6.7
Domestic	3.7	0.1	3.6
Imported	3.0	-0.7	3.7

Source: INEGI

Gross fixed investment

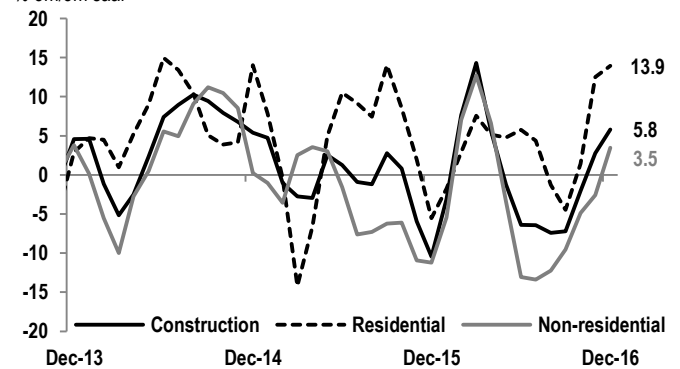
% 3m/3m saar



Source: Banorte-IXE

Gross fixed investment: Construction

% 3m/3m saar



Source: Banorte-IXE

Looking ahead, we believe that GFI will maintain a downward trend. We believe that private investment flows will continue to reflect the adverse effects of the fiscal cuts implemented by the Federal Government and the volatility 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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