

GFI continues to show weakness in March

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- **Gross fixed investment (March): -2.4% yoy (nsa); Banorte: -2.1%; consensus: -1.7% (range of estimates: -4.1% to -0.5%); previous: -1.9%**
- **The fall in March was generalized, highlighting the contraction in domestic machinery and equipment (-5.8%) as well as construction (-1.8%)**
- **On a monthly basis, GFI fell 3.0% m/m, matching the contraction seen in the previous month, although not fully reversing the 7.4% increase seen in January**
- **Investment should remain a drag for growth, with uncertainty picking up in recent days, among other factors. We maintain our view that investment will contract in 2019, with higher risks to the downside**

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

GFI decreased 2.4% yoy in March, lower than consensus. GFI stood in contraction territory for a second consecutive month with a 2.4% yoy fall in March, lower than consensus but closer to our 2.1% forecast. This was driven by overall weakness, although more concentrated in the domestic sector. In this context, construction fell 1.8%, with non-residential investment leading the fall (-3.3%) but also with a marginal reduction in the residential sector (-0.3%). Regarding the former, we believe that this is mostly explained by the reduction in public spending associated with the first year of government of a new administration. This fact, coupled with further austerity measures have, and probably will, continue dampening dynamism in this component. Also in the local front, domestic investment in machinery and equipment (M&Eq.) was down 5.8%, adding 10 months in contraction. On the other hand, imported M&Eq. saw a more modest decline of -1.4%, slightly weaker than implied by capital goods imports which edged-up 0.2%.

In our view, the report continues showing weakness in investment, particularly considering that it fell 0.9% yoy in 1Q19, considerably below the +1.0% seen in the same period of 2018. This trend, coupled with deterioration in the outlook for growth –as suggested by the recent actions of rating agencies–, in conjunction with heightened uncertainty on the trade front, will probably result in lower investment in coming months.

Gross fixed investment

% yoy, nsa

	Mar-19	Mar-18	Jan-Mar'19	Jan-Mar'18
Total	-2.4	-4.7	-0.9	1.0
Construction	-1.8	-5.5	0.3	0.0
Residential	-0.3	-4.9	2.2	4.2
Non-residential	-3.3	-6.1	-1.4	-3.7
Machinery and equipment	-3.2	-3.7	-2.7	2.4
<i>Domestic</i>	<i>-5.8</i>	<i>-5.8</i>	<i>-5.7</i>	<i>-4.0</i>
Transportation equipment	-1.1	-11.6	-1.9	-8.8
Other machinery and equipment	-12.5	3.9	-10.6	3.2
<i>Imported</i>	<i>-1.4</i>	<i>-2.3</i>	<i>-0.8</i>	<i>6.9</i>
Transportation equipment	2.1	5.7	6.1	0.8
Other machinery and equipment	-2.1	-3.7	-1.9	8.0

Source: INEGI

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In the monthly comparison, GFI fell 3.0%. This contraction was in line with the revised figure for February, adding two months in negative territory. However, these two figures were not enough to compensate for the considerable 7.4% increase seen in January. Taking a look at the breakdown, the main drag was construction, falling a steep 4.0%, with sharp declines in both components, although more negative in residential (-4.3%) relative to the non-residential sector (-3.7%). On the other hand, M&Eq. fell -0.9%. However, dynamics were contrary to those observed in the yearly comparison, with the domestic component rising 0.8% while imports were down 2.9%. With the latter figures, the 3m/3m saar metrics show a considerable 7.0% grow. However, it should be noted that this is partly driven by a base effect, considering weakness at the end of 2018.

Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Mar-19	Feb-19	Jan-19	Jan-Mar'19	Dec'18-Feb'19
Total	-3.0	-3.0	7.4	7.0	-0.8
Construction	-4.0	-2.8	4.6	4.9	6.5
Residential	-4.3	-3.7	5.3	8.4	16.2
Non-residential	-3.7	-2.1	4.6	5.6	2.6
Machinery and equipment	-0.9	-2.5	10.0	12.9	-8.0
Domestic	0.8	0.7	4.9	20.5	-0.9
Transportation equipment	1.6	3.8	13.6	70.9	8.2
Other machinery and equipment	0.7	-2.9	-1.5	-13.4	-12.9
Imported	-2.9	-4.1	11.9	5.4	-12.9
Transportation equipment	-2.7	4.8	5.4	0.6	-7.0
Other machinery and equipment	-2.5	-5.9	12.1	4.8	-13.7

Source: INEGI

The outlook for investment has become more challenging. On top of the already negative trend for investment seen in recent months, we believe that recent events have further increased the challenges for investment, both public and private. In this respect, uncertainty about the trade relationship with the US has risen significantly given the latest threats by President Trump to impose tariffs on all Mexican exports. Moreover, the downgrade of Mexico's rating by Fitch (to 'BBB' from 'BBB+') and Moody's outlook change (from 'stable' to 'negative') add further headwinds to this complex scenario. This latter factor could prompt the Federal Government to undertake further efforts to bolster its financial position, possibly resulting in additional austerity measures, which we believe could weigh first on infrastructure spending, considering that the President has prioritized social transfer programs. In addition, the heightened perception of uncertainty regarding the prospects for growth, as quoted by both rating agencies as one of their key factors to act, could probably translate into a further deceleration in private investment. All in all, we think that investment will post a negative performance in 2019, even-though the dynamic during first quarter was better than our forecast at the beginning of the year.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials / Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts / Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454