

GFI grows 3.4% yoy in October driven by imported machinery and equipment

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- **Gross fixed investment (October): 3.4% yoy (nsa); Banorte: 3.1%; consensus: 3.4% (range of estimates: -0.9% to 5.1%); previous: -0.9%**
- **The rebound in October is mainly explained by the 14% yoy expansion in imported machinery and equipment, coupled with a marginal increase in construction (0.8%)**
- **In the monthly comparison GFI picked up 0.2% m/m (seasonally adjusted) on the back of higher construction (0.1%), despite a considerable fall in domestic M&Eq (-5.5%)**
- **We expect weaker investment ahead given increased volatility both at a global and domestic levels coupled with tighter financial conditions**

GFI grew 3.4% yoy in October, in line with market expectations. In this respect, GFI bounced back to expansion territory after two months in contraction. Inside, we highlight the 6.6% growth in machinery and equipment (M&Eq), driven by the 14.0% growth in the imported component. Nevertheless, domestic M&Eq fell 4.4% even in the presence of a favorable base effect –given that this type of investment had a 11% last year–, which could point to a more noticeable weakness in coming months. Construction edged-up 0.8% on the back of a 3.3% expansion in the residential sector. However, non-residential construction fell 1.4%.

In our view, the strong expansion in imported M&Eq was probably explained by the relative strength of the Mexican peso during the first part of the month, before the currency started a depreciation trend. Considering the latter, we expect that the relative weakness of the MXN during November will negatively impact this sort of investment. In this regard, trade balance figures in the eleventh month of 2018 point to a slowdown given that capital goods imports grew 6.8% yoy from 18.6% in the previous month.

Gross fixed investment

% yoy, nsa

	Oct-18	Oct-17	Jan-Oct, '18	Jan-Oct, '17
Total	3.4	-3.0	1.8	-1.3
Construction	0.8	-3.6	0.5	-3.2
Residential	3.3	1.1	2.8	2.0
Non-residential	-1.4	-7.6	-1.5	-7.6
Machinery and equipment	6.6	-2.3	3.4	1.4
Domestic	-4.1	-11.0	-3.7	-0.5
Transportation equipment	-2.5	-16.9	-5.0	-3.6
Other machinery and equipment	-6.6	-0.1	-1.7	4.6
Imported	14.0	4.8	8.4	2.7
Transportation equipment	22.3	0.1	6.2	0.5
Other machinery and equipment	12.6	5.6	8.7	3.1

Source: INEGI

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In the monthly comparison GFI edged-up 0.2% m/m, furthering the 0.9% seen in September. Going into the main components, construction grew 0.1%, with the residential sector leading at 2.3%. On the other hand, machinery and equipment fell 0.8%, with the domestic component at -5.5%, and the imported one increasing 0.4%. Lastly, the 3m/3m saar figure fell for a sixth consecutive month (considering the revised figures) at -7.1% from -2.7% in the previous month, reaching its lowest level since April 2017.

Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Oct-18	Sep-18	Aug-18	Aug-Oct18	Jul-Sep18
Total	0.2	0.9	-2.9	-7.1	-2.7
Construction	0.1	1.0	-2.6	-5.0	-1.1
Residential	2.3	1.7	-4.3	-2.3	0.6
Non-residential	-2.3	0.1	0.2	-4.4	-2.0
Machinery and equipment	-1.1	0.8	-3.2	-9.7	-3.1
Domestic	-5.5	6.2	-8.1	-31.5	-20.8
Transportation equipment	-6.9	1.7	-3.9	-29.0	-10.5
Other machinery and equipment	-4.9	3.3	-3.7	-23.1	-20.5
Imported	0.4	0.7	-1.9	5.2	11.0
Transportation equipment	16.9	-3.1	-5.1	-0.7	-12.4
Other machinery and equipment	-2.4	1.7	-2.8	5.4	17.8

Source: INEGI

Despite the rebound in October, we expect weaker investment in coming months. As previously mentioned, we forecast imported machinery and equipment to fall in November due to the depreciation of the Mexican peso. Nevertheless, there could be a recovery in December as the outlook for the local currency, coupled with a generalized dollar weakness. Despite the latter, we believe that the outlook for investment will be unfavorable. In particular, uncertainty and financial volatility have increased significantly, impacting long-term interest rates and the Mexican currency. Finally, global and domestic growth expectations have been revised down and business confidence levels have taken a hit, which could result in more caution in terms of the willingness to invest.

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