Gross Fixed Investment – FX and fiscal cuts behind July's 3.6% yoy contraction

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- **Gross fixed investment (July): -3.6% yoy; Banorte-Ixe: -1.4%; consensus: -1.5% (range of estimates: -2.5% to -0.4%); previous: -0.5%**
- **GFI's contraction during July was explained by the 8.7% yoy reduction in non-residential construction spending, coupled with an 8.4% fall in capital goods imports**
- **In seasonally adjusted terms, GFI posted a 1.2% m/m contraction**
- **Looking ahead, we believe that GFI figures will continue to fall**

July's contraction explained by the depreciation of the Mexican currency and lower public investment projects. According to *INEGI's* report, gross fixed investment in July posted a 3.6% yoy contraction, below our -1.4% yoy forecast (consensus: -1.5%; previous: -0.5%). Taking a look at the breakdown, investment in domestic machinery and equipment edged-up 3.7% yoy, while the imported component declined 8.4% yoy, as a result of the significant depreciation of the Mexican currency.

Moreover, investment in construction fell 3% yoy, as a result of the 8.7% reduction in non-residential construction, which now adds fourteen 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 affected Mexico's drilling and public investment projects (refer to the table below).

Gross fixed investment: July 2016
% yoy

	Jul-16	Jul-15	Jan-Jul, '16	Jan-Jul, '15
Total	-3.6	4.2	-0.1	5.3
Construction	-3.0	1.5	0.3	2.8
Residential	4.1	5.3	5.5	3.7
Non-residential	-8.7	-1.3	-3.7	2.1
Machinery and equipment	-4.6	8.5	-0.6	9.4
Domestic	3.7	6.8	7.0	9.9
Transportation Equipment	8.8	3.6	13.1	13.7
Other machinery and equipment	-1.7	10.5	0.9	6.3
Imported	-8.4	9.2	-3.9	9.2
Transportation Equipment	-8.1	-7.2	-4.8	0.7
Other machinery and equipment	-8.4	11.7	-3.8	10.4

Source: INEGI

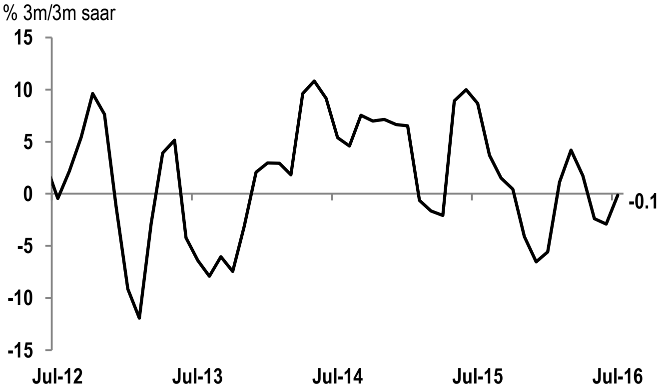
In seasonally adjusted terms, GFI fell 1.2% m/m in July. Taking a look at the breakdown, investment in domestic machinery and equipment posted a null growth, while the imported component fell 1.3% m/m. Finally, investment in the construction sector decreased 1.5% m/m, as a result of the 4.5% m/m contraction in non-residential construction.

In addition, GFI posted a 0.1% 3m/3m saar contraction. Moreover, construction has fallen 5.8%, given the 16.2% reduction in non-residential construction. However, investment in residential construction has increased 6.7% as a result of the recovery in durable goods spending (refer to the charts below)

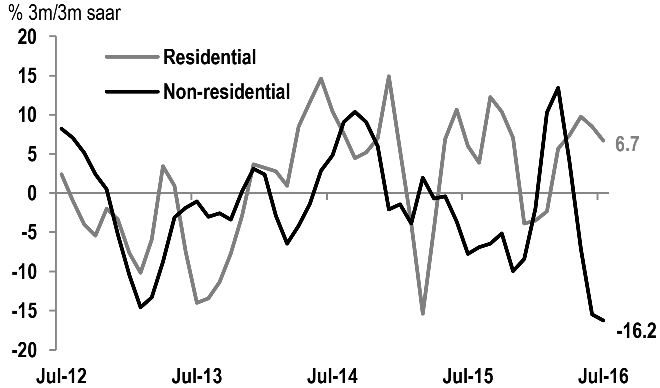
Gross fixed investment: July 2016
% m/m

	Jul-16	Jun-16	May-16
Total	**-1.2**	**0.8**	**0.8**
Construction	**-1.5**	**0.3**	**-1.0**
Residential	0.4	0.7	-0.5
Non-residential	-4.5	0.7	-0.7
Machinery and equipment	**-1.3**	**3.1**	**3.0**
Domestic	0.0	-0.2	7.5
Transportation equipment	-2.4	1.0	4.1
Other M&Eq	-0.1	1.1	4.6
Imported	-1.3	4.4	2.4
Transportation equipment	-18.5	18.7	4.2
Other M&Eq	0.5	3.4	2.3

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 figures will continue to fall. We believe that GFI's outlook for the second half of the year will continue to be more negative. In particular, M&Eq imports now add a 3.9% yoy contraction as a result of the significant depreciation of the Mexican currency. Looking ahead, we expect that investment in M&Eq imports will continue to fall, as a result of the higher volatility in the exchange rate market.

In addition, we believe that construction output will 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 the *Ku-Maloob-Zaap* oil wells system, which has limited Mexico's oil production and infrastructure development within the region.

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