

GFI recovers in May

August 4, 2017

- **Gross fixed investment (May): 2.3% yoy (nsa); Banorte-Ixe: 3.1%; consensus: 2.1% (range of estimates: -2% to 3.1%); previous: -8.6%**
- **We believe that GFI's expansion was partially explained by the 1.1% appreciation of the Mexican currency during the month, as well as a reduction regarding the uncertainty around the Mexican economy**
- **In seasonally adjusted terms, GFI grew 2.9% m/m (1.1% yoy), given the 1.9% m/m in construction (-2.4% yoy) and 2.5% in M&Eq. investment (5.9% yoy)**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
 - (1) **The fiscal cuts implemented by the federal government which have affected Mexico's drilling and public investment projects; and**
 - (2) **The uncertainty surrounding the impact of Trump's policies in the Mexican economy**

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GFI recovers in May. According to *INEGI's* report, gross fixed investment grew 2.3% yoy in May, after the -8.6% contraction in April (Banorte-Ixe: 3.1% yoy; consensus: 2.1%). GFI's expansion was partially explained by the 1.1% appreciation of the Mexican currency during the month, as well as a reduction regarding the uncertainty around the Mexican economy. Moreover, this year had one more working day than May 2016, which benefited the annual comparison. Adjusting for this effect, and using seasonally adjusted figures, GFI grew 1.1%.

Taking a look at the breakdown, and analyzing the seasonally adjusted series, investment in construction posted a 2.4% contraction, as a result of the 5.7% reduction in non-residential construction. In this context, the fall in non-residential construction investment reflects the fiscal consolidation efforts made by the federal government, which have affected Mexico's drilling and public investment projects. Moreover, investment in residential construction increased 1.4% yoy (refer to the first table on the next page). By contrast, investment in domestic machinery and equipment decreased 3.9% yoy, while the imported component grew 10.6% yoy.

Gross fixed investment: May 2017

% yoy; calendar adjusted figures

	May-17	Apr-17	May-16
Total	1.1	-2.4	-0.6
Construction	-2.4	-6.4	-1.0
Residential	1.4	-2.0	4.8
Non-residential	-5.7	-9.4	-5.3
Machinery and equipment	5.9	4.8	-0.5
Domestic	-3.9	6.2	10.1
Transportation equipment	-8.3	3.8	17.1
Other M&Eq	2.7	9.3	1.8
Imported	10.6	4.1	-4.7
Transportation equipment	24.3	3.0	-6.6
Other M&Eq	8.6	4.1	-4.3

Source: INEGI

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In seasonally adjusted terms, GFI increased 2.9% m/m. Taking a look at the breakdown, investment in imported machinery and equipment posted a 6.7% expansion, while domestic purchases were down by 4.3%. Moreover, investment in the construction sector grew 1.9% m/m. With today's figures, GFI posted a 0.9% 3m/3m saar contraction. In addition, construction fell 7.91% as a result of the 12.6% reduction in non-residential construction (refer to the charts on the next page).

Gross fixed investment: May 2017

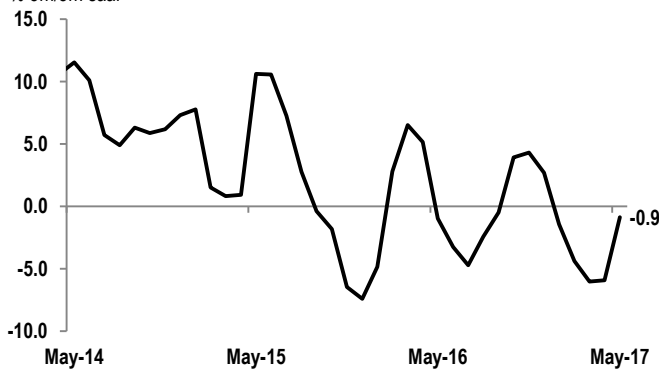
% m/m; sa

	May-17	Apr-17	Mar-17
Total	2.9	-1.6	0.9
Construction	1.9	-1.5	-0.5
Residential	1.6	-1.9	1.3
Non-residential	1.8	-0.7	-1.4
Machinery and equipment	2.5	-0.1	0.9
Domestic	-4.3	1.6	-1.4
Transportation equipment	-6.3	-0.2	1.2
Other M&Eq	-3.2	2.9	-2.0
Imported	6.7	-0.8	1.9
Transportation equipment	17.3	-8.3	9.8
Other M&Eq	5.1	0.3	1.7

Source: INEGI

Gross fixed investment

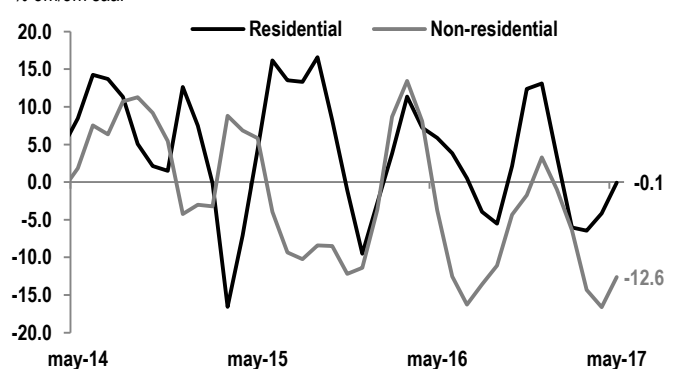
% 3m/3m saar



Source: Banorte-IXE

Construction: Total and Non residential

% 3m/3m saar



Source: Banorte-IXE

Looking ahead, we believe that GFI will maintain a downward trend.

Today's figures validate our view of a deceleration of investment levels. We believe that the contraction stems from: (1) The fiscal cuts implemented by the federal government which have affected Mexico's drilling and public investment projects; and (2) the uncertainty surrounding the impact of Trump's policies in the Mexican economy. Looking ahead, we expect these factors to continue to weigh on investment decisions in our country in the coming months.

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