

GFI weakened again in September

- **Gross fixed investment (September): -6.8% yoy (nsa); Banorte: -7.0%; consensus: -6.9% (range: -9.9% to -2.8%); previous: -5.0%**
- **As a result, GFI declined 6.5% yoy in 3Q19, accumulating a 4.8% year-to-date contraction. In the month, construction fell 7.3% while machinery and equipment also remained weak, at -6.1% (previous: -9.8%)**
- **In monthly terms, GFI stood at -1.3% (sa), returning to negative after a brief move higher in August and reversing almost all of the previous month's gain. In absolute terms, the level reached is at lows not seen since late 2013**
- **With business confidence failing to gather steam, we maintain our forecast for investment within aggregate demand to show only a modest improvement in 2020, to about 0.3% yoy from -4.8% this year**

GFI contracts 6.8% yoy in September. Investment declined once again, standing slightly above consensus at -6.9% and our forecast of -7.0%. As a result, GFI in 3Q19 remained quite weak, declining 6.5% yoy on top of the -7.7% of the previous quarter. Year-to-date, it accumulates a 4.8% downfall, in line with our full-year forecast. In our view, today's report shows that the challenges faced by this component of aggregate demand are very much present still, failing to build-up on modest gains in August which were driven by construction and imported machinery and equipment.

In terms of public investment, the public finance report for the period showed that capital outlays by the Federal Government surged 27.5% yoy in real terms, but only after the -5.9% of the previous month. Although this was very positive, it was not reflected in today's report. Moreover and given ongoing budgetary constraints, the government announced recently an agreement with the private sector to accelerate investment spending, which we believe could also be favorable. We will be attentive to the likely presentation of public-sector plans, which according to officials will be unveiled in January 2020. For details, see: "*The government announced the first phase of its Infrastructure Program*", <[pdf](#)>, November 26th, 2019. Despite of the latter, evidence keeps suggesting that the decline in public-sector investments has not been the only factor behind weak results observed so far in the year. In our view, this situation is likely to have extended for most of 4Q19, with conditions weak enough to prevent us from stating that a bottom has already been reached.

By sectors, construction plunged 7.3% yoy, seventh consecutive negative print but still above the figures from the industrial production report for the same period (-8.3%). Machinery and equipment has now added almost one year in contraction, with the main drag still from the imported component (-9.9%), declining at a more modest pace relative to the signal observed in the trade balance report, which showed capital goods imports at -13.5%. The domestic component fell 0.6%, higher than the -6.6% in August and possibly benefited by the abovementioned increase in public spending.

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Gross fixed investment

% yoy, nsa

	Sep-19	Sep-18	Jan-Sep'19	Jan-Sep'18
Total	-6.8	-1.6	-4.8	2.5
Construction	-7.3	-3.3	-3.2	1.3
Residential	-3.5	-7.8	-1.9	3.6
Non-residential	-10.7	1.0	-4.5	-0.8
Machinery and equipment	-6.1	0.7	-7.0	4.1
<i>Domestic</i>	-0.6	-2.0	-4.4	-0.5
Transportation equipment	-0.9	0.0	0.5	0.3
Other machinery and equipment	-0.2	-5.5	-12.1	-1.8
<i>Imported</i>	-9.9	2.8	-8.7	7.3
Transportation equipment	-3.1	-1.9	0.1	3.6
Other machinery and equipment	-11.0	3.5	-10.1	8.0

Source: INEGI

With seasonally-adjusted figures, investment is at levels not seen since late 2013. In particular, GFI contracted 1.3% m/m, virtually reversing the 1.4% gain observed in August and with nine of the last twelve months contracting. Given the magnitude of the accumulated adjustments, the index is currently hovering at lows not observed since late 2013 (see chart below). Inside, construction fell 4.7%. Regarding Mexico City –which earlier in the year had been severely affected on the suspension of projects by the local government– data up to July shows that a gradual recovery is in place despite staying weaker relative to 2018. On the other hand, machinery and equipment edged-up 0.8%. Inside, this result was driven by the domestic component, which surged to a high of 3.7%, not seen since March 2018. However, the imported component remains as a heavy drag, declining 2.2%. The 3m/3m saar rate improved for third straight month, although it remains very low in absolute terms at -7.6%.

Gross fixed investment

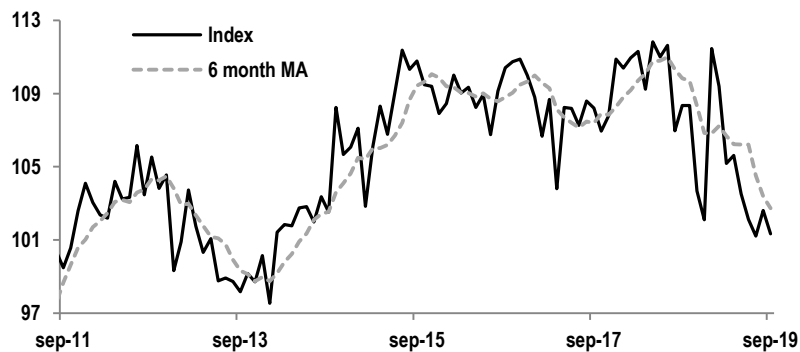
% m/m sa, % 3m/3m saar

	% m/m			% 3m/3m saar	
	Sep-19	Aug-19	Jul-19	Jul-Sep'19	Jun-Aug'19
Total	-1.3	1.4	-0.9	-7.6	-10.2
Construction	-4.7	3.8	-2.2	-6.0	-3.2
Residential	-1.4	2.6	-0.9	-2.9	-6.8
Non-residential	-4.7	2.0	-4.0	-12.3	-2.1
Machinery and equipment	0.8	1.3	0.3	-9.4	-19.0
<i>Domestic</i>	3.7	-2.5	-1.0	-6.5	-5.9
Transportation equipment	4.6	-4.8	-5.2	-24.0	-14.9
Other machinery and equipment	2.5	2.2	6.6	39.9	15.7
<i>Imported</i>	-2.2	4.5	4.0	-5.4	-25.0
Transportation equipment	-6.4	-0.4	7.6	16.4	4.3
Other machinery and equipment	-0.9	6.2	4.2	-5.8	-30.1

Source: INEGI

Gross fixed investment

Index 100=2013, sa



Source: INEGI

The outlook for investment remains challenging. Overall, the result is negative as it failed to extend on the relative improvement shown in August. In our view, the outlook for investment remains challenged, facing a difficult environment characterized by: (1) High levels of uncertainty, both globally and domestically; (2) weakness in economic activity, including the slowdown in services and contraction in industry; and (3) high financing costs, which reduce the attractiveness of all projects. We believe this has been clearly reflected in muted business confidence levels, which unfortunately reversed the move higher seen in September across all sectors. In our view, a change in trend in the latter is a necessary (but not sufficient) condition to anticipate at least a gradual recovery. Based on recent reports we cannot rule out additional declines, with risks to our full-year 2019 forecast of a 4.8% contraction skewed to the downside. In this respect and just as an example, capital goods imports in October remained very weak, declining 13.1% yoy.

Although current conditions look difficult, we maintain our more optimistic view for the year ahead. Among the factors supporting our call, we expect trade tensions to diminish in the short-term, particularly those between the US and China, while the USMCA is likely to be approved no later than 1Q20. Moreover, we highlight that public finance data suggests some acceleration in public sector investments, a situation that extended into October –albeit at a more modest pace–, while the agreement with the private sector mentioned above could also help. In our view, these should result in lower uncertainty. Lastly, recent communications by the central bank show broad agreement of extending the easing cycle, with the debate centered on the pace of rate cuts but not the direction. In our view, the reference rate will be gradually cut towards 6.00% by year-end 2020, despite risks stemming from the resistance to the downside of core inflation and other financial stability concerns, including the Presidential Election in the US, which could induce higher volatility.

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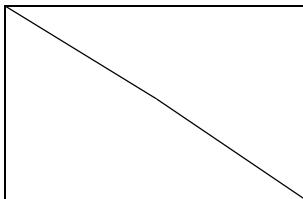
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