

# GFI contracts in August, impacted by the slowdown in the domestic front

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- **Gross fixed investment (August): -2.4% yoy (nsa); Banorte: -0.4%; consensus: 0.0% (range of estimates: -5.7% to 2.4%); previous: 5.0%**
- **The decrease in GFI was mainly driven by the contraction in domestic machinery and equipment, although construction also fell after the strong rebound in July**
- **In the monthly comparison, GFI decreased 3.4% m/m (seasonally adjusted), with all components shifting back to negative territory, particularly in the domestic front**
- **In our opinion, investment will likely remain muted as the global backdrop remains challenging amid trade tensions, lower global growth and tighter financial conditions**

**GFI fell 2.4% yoy in August, below expectations.** The latter could be a result of some payback of the pick-up observed in the previous month. It is worth noting that the imported component in machinery and equipment was the only sub-index with an expansion (3.8%) when compared to the same period of the previous year. In this respect, domestic M&E plunged 12.2%, with a strong contraction in investment excluding transportation equipment. Construction fell 1.9%, weighed down by both the residential and non-residential sectors, which decreased 2.5% and 1.4%, respectively. In this respect, the figure was marginally weaker than the one suggested by industrial production data.

In spite of lower domestic uncertainty after the US-Mexico trade agreement in August, the overall trend in GFI does not seem to have improved meaningfully. In this respect, it is worth remembering that one data point does not constitute a trend, so we will be watchful for signs provided by this indicator going forward to gauge if the agreement had a discernible effect on investment. However, business confidence in terms of future country conditions have been hit in the two months ended in October, particularly in manufacturing and services, suggesting the possibility of muted dynamism going forward.

**Gross fixed investment**

% yoy, nsa

	Aug-18	Aug-17	Jan-Aug, '18	Jan-Aug, '17
<b>Total</b>	-2.4	0.4	2.3	-1.0
<b>Construction</b>	-1.9	-3.1	0.5	-4.4
Residential	-2.5	1.7	3.1	1.1
Non-residential	-1.4	-7.0	-1.9	-8.9
<b>Machinery and equipment</b>	-3.0	4.8	4.6	3.7
Domestic	-12.2	3.6	-0.5	3.6
Transportation equipment	2.4	-13.2	-1.6	-0.8
Other machinery and equipment	-28.0	30.9	1.1	10.8
Imported	3.8	5.7	8.3	3.8
Transportation equipment	2.3	-1.6	5.4	7.6
Other machinery and equipment	4.1	7.0	8.8	3.2

Source: INEGI

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**In the monthly comparison, GFI plunged 3.4% m/m, more than reversing the 1.3% increase in the previous month.** All subcomponents were lower, with decreases of 2.9% in construction and 3.5% in machinery and equipment, Inside the latter, the domestic and imported components fell 5.3% and 2.0%, in the same order. As a result, the 3m/3m saar headline figure went from +0.4% in July to -1.3% in August, tempering down our relative optimism that investment would improve given lower trade uncertainty.

#### Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Aug-18	Jul-18	Jun-18	Jun-Aug18	May-Jul'18
<b>Total</b>	<b>-3.4</b>	<b>1.3</b>	<b>-0.2</b>	<b>-1.3</b>	<b>0.4</b>
<b>Construction</b>	<b>-2.9</b>	<b>0.5</b>	<b>1.5</b>	<b>2.2</b>	<b>-1.1</b>
Residential	-4.1	2.6	0.7	1.1	-5.3
Non-residential	-0.5	-1.4	2.1	3.6	2.6
<b>Machinery and equipment</b>	<b>-3.4</b>	<b>1.5</b>	<b>-1.1</b>	<b>-6.0</b>	<b>-1.6</b>
Domestic	-5.3	-3.0	-0.9	-15.7	0.7
Transportation equipment	-3.5	-3.9	1.0	-2.5	15.4
Other machinery and equipment	-11.1	-1.4	-3.4	-30.7	-13.0
Imported	-2.0	3.9	0.0	3.9	-1.7
Transportation equipment	-4.9	0.1	3.9	-4.3	-0.6
Other machinery and equipment	-2.8	7.1	-1.6	6.7	-0.1

Source: INEGI

**Investment will likely remain muted as the global backdrop remains challenging amid trade tensions, lower global growth and tighter financial conditions.** Despite last month's tentative signs of an improvement in investment, this report pours some cold water to the outlook of a positive impact due to lower uncertainty about trade with the US. In that respect, August's data reaffirms that investment weakness remains broadly unchanged, particularly in the domestic front. On the other hand, capital goods imports have maintained a relatively stable performance, although the recent depreciation of the Mexican peso could have an adverse impact in this category. Business confidence has declined more rapidly than the consumer's outlook, particularly in terms of the country prospects. Lastly, global financing conditions have tightened as a result of a more hawkish bias by central banks in developed countries and local interest rates have picked up strongly, which constitutes a higher bar for investment projects in terms of the required IRR.

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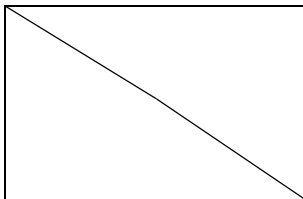
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