

GFI – Higher expenditure in domestic M&Eq explains November’s 2.8% growth

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- **Gross fixed investment (November): 2.8% yoy; Banorte-Ixe: 2.4%; consensus: 2.5% (range of estimates: 0.3% to 3.3%); previous: -0.9%**
- **GFI’s expansion was explained by the 14.6% yoy expansion in domestic machinery and equipment (M&Eq)**
- **However, M&Eq imports fell 0.9% yoy, as a result of the significant depreciation of the Mexican currency**
- **Construction output increased 2% given the 4.6% growth in residential construction coupled with the 0.2% contraction in non-residential construction output**
- **In seasonally adjusted terms, GFI fell 0.3% m/m**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
 - (1) **The depreciation of the Mexican currency;**
 - (2) **The fiscal cuts implemented by the federal government; and**
 - (3) **The uncertainty surrounding the impact of Trump’s policies in the Mexican economy**

GFI posted a 2.8% expansion yoy in November. According to *INEGI’s* report, gross fixed investment in November increased 2.8% yoy, above our 2.4% yoy forecast (consensus: 2.5%; previous: -0.9%). Taking a look at the breakdown, investment in domestic machinery and equipment increased 14.6% yoy, while the imported component fell 0.9% yoy as a result of the accumulated depreciation of the Mexican currency.

In addition, investment in construction increased a moderate 2% yoy, as a result of the 0.2% reduction in non-residential construction, which now adds eighteen 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 also affected Mexico’s drilling and public investment projects (refer to the table on the next page). However, investment in residential construction increased 4.7% yoy.

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Gross fixed investment: November 2016

% yoy

	Nov-16	Nov-15	Jan-Nov, '16	Jan-Nov, '15
Total	2.8	-0.4	0.4	4.6
Construction	2.0	-3.8	-0.1	2.0
Residential	4.7	0.8	4.3	3.9
Non-residential	-0.2	-7.3	-3.6	0.6
Machinery and equipment	4.1	5.4	1.1	8.8
Domestic	14.6	2.7	9.2	9.2
Transportation Equipment	21.3	5.7	15.2	14.3
Other machinery and equipment	6.9	-0.6	2.9	4.2
Imported	-0.9	6.8	-2.6	8.6
Transportation Equipment	4.2	-0.9	2.5	0.7
Other machinery and equipment	-1.6	8.0	-3.2	9.7

Source: INEGI

In seasonally adjusted terms, GFI decreased 0.3% m/m. Taking a look at the breakdown, investment in imported machinery and equipment posted a 0.8% reduction, while domestic purchases increased 1.1%. In addition, investment in the construction sector fell 0.7% m/m. With today's figures, GFI posted a 2.7% 3m/3m saar growth. In addition, construction increased 2.1%, given the 11.7% growth in residential construction coupled with the 1.7% reduction in non-residential construction output (refer to the charts below).

Gross fixed investment: November 2016

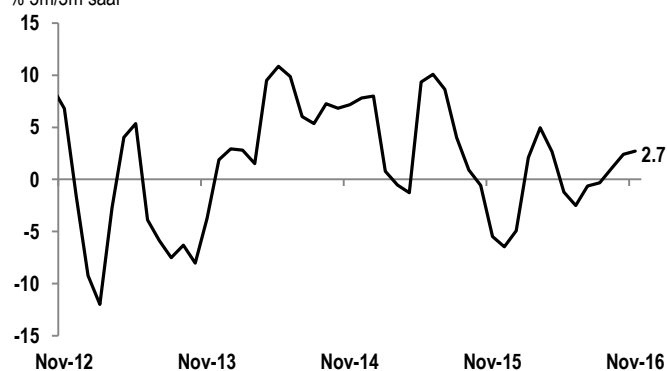
% m/m

	Nov-16	Oct-16	Difference
Total	-0.3	-0.8	0.5
Construction	-0.7	1.6	-2.3
Machinery and equipment	-0.3	-6.5	6.1
Domestic	1.1	-0.3	1.4
Imported	-0.8	-10.1	9.3

Source: INEGI

Gross fixed investment

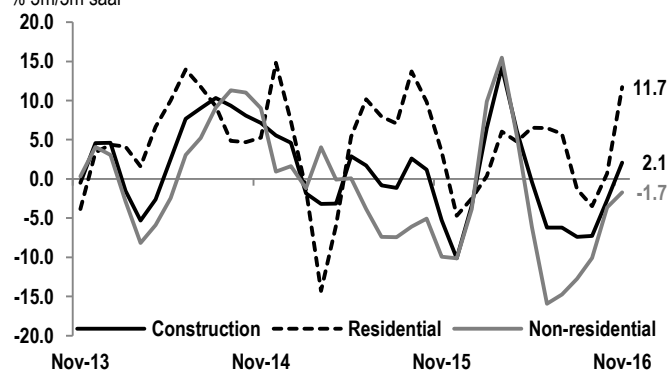
% 3m/3m saar



Source: Banorte-IXE

Gross fixed investment: Construction

% 3m/3m saar



Source: Banorte-IXE

Looking ahead, we believe that GFI will maintain a downward trend. We believe that private investment flows will continue to reflect the adverse effects of the fiscal cuts implemented by the Federal Government and the depreciation of the Mexican currency. Similarly, it is likely that the uncertainty surrounding Trump's policies on the Mexican economy will also affect investment decisions in our country, particularly during the first quarter of the year.

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