

Gross Fixed Investment – FX and fiscal cuts behind May’s 0.7% yoy growth

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- **Gross fixed investment (May): 0.7% yoy; Banorte-Ixe: 1.6%; consensus: 1.6% (range of estimates: 0.5% to 2.8%); previous: 1.6%**
- **GFI’s growth in May was explained by the 0.6% yoy reduction in construction spending, coupled with a 2.7% increase in Machinery and Equipment**
- **In seasonally adjusted terms, GFI posted a 0.7% m/m expansion**
- **Looking ahead, we believe that GFI figures will continue to show a significant deceleration**

Lower-than-expected growth in May. According to *INEGI’s* report, gross fixed investment in May posted a 0.7% yoy expansion, below our 1.6% yoy forecast (consensus: 1.6%; previous: 1.6%). Taking a look at the breakdown, investment in domestic machinery and equipment edged-up to 11.7% yoy, while the imported component declined 1.3% yoy, given the 7.8% depreciation of the Mexican currency in May.

Moreover, investment in construction fell 0.6%, as a result of the 5.4% contraction in non-residential construction, given the reduction in public investment projects, coupled with the decline in oil drilling projects. However, residential construction increased 5.7% yoy, given the better growth dynamics of household spending, as shown in the table below.

Gross fixed investment: May 2016

% yoy

	May-16	May-15	Jan-May, '16	Jan-May, '15
Total	0.7	2.3	0.9	4.9
Construction	-0.6	0.8	0.7	3.6
Residential	5.7	1.2	6.0	3.7
Non-residential	-5.4	0.5	-3.4	3.5
Machinery and equipment	2.7	4.5	1.2	7.0
Domestic	11.7	9.6	8.9	9.3
Transportation Equipment	16.1	15.0	15.0	13.9
Other machinery and equipment	6.7	4.1	3.1	5.4
Imported	-1.3	2.4	-2.1	6.0
Transportation Equipment	-5.0	-3.2	-7.0	0.7
Other machinery and equipment	-0.8	3.2	-1.4	6.8

Source: INEGI

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In seasonally adjusted terms, GFI increased 0.7% m/m in May. Taking a look at the breakdown, investment in domestic machinery and equipment posted a 3.1% growth, while the imported component increased 1.9% m/m. Finally, investment in the construction sector fell 1% m/m, as a result of the 0.8% m/m contraction in non-residential construction.

With today's figures, GFI posted a 2.4% 3m/3m saar contraction. Moreover, construction has fallen 1%, given the 4.8% reduction in non-residential construction. However, investment in residential construction has increased 9.7% (refer to the charts below)

Gross fixed investment: May 2016

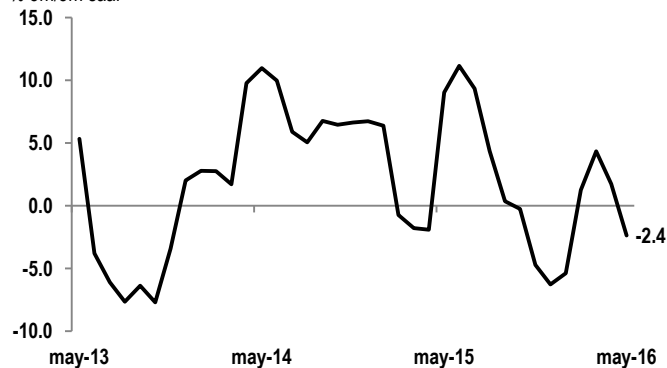
% m/m

	May-16	Apr-16	Mar-16
Total	0.7	-1.5	0.2
Construction	-1.0	-0.8	0.8
Residential	-0.1	1.5	1.6
Non-residential	-0.8	-4.8	1.5
Machinery and equipment	3.1	-1.4	-0.2
Domestic	7.3	-4.3	3.3
Transportation equipment	4.4	0.4	10.3
Other M&Eq	3.2	-1.4	0.5
Imported	1.9	-2.3	-0.2
Transportation equipment	4.2	3.3	-6.8
Other M&Eq	2.0	-2.7	-1.4

Source: INEGI

Gross fixed investment

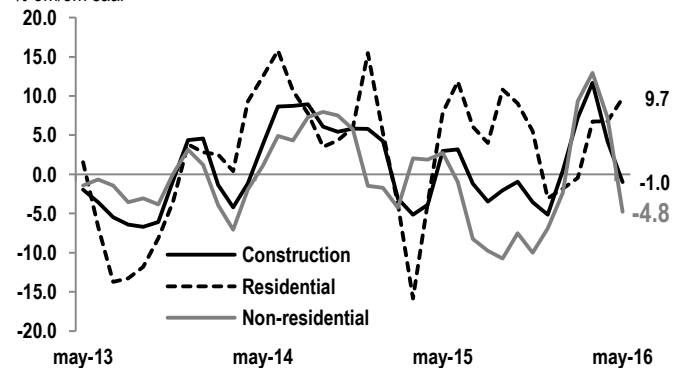
% 3m/3m saar



Source: Banorte-IXE

Gross fixed investment: Construction

% 3m/3m saar



Source: Banorte-IXE

Looking ahead, we believe that GFI figures will show a significant deceleration. We believe that GFI's outlook for the second half of the year will be more negative. In particular, the latest trade balance report published by Banxico and *INEGI* shows that M&Eq imports fell 5.1% yoy in June. Moreover, we believe that construction output will be significantly lower, as a result of: (1) The decline in public investment projects, given the fiscal cut announced by the Federal Government on November 2015. In addition, the new fiscal cuts announced by the *MoF* on February 17 and on May 23 will further limit the government's ability to invest in public projects; and (2) the additional MXN\$9 billion budget cut in the *Ku-Maloob-Zaap* oil wells system (around US\$ 474.4 million), which has limited Mexico's oil production and infrastructure development within the region.

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