

## Modest recovery in GFI in August, led by construction

- **Gross fixed investment (August): -4.3% yoy (nsa); Banorte: -4.6%; consensus: -6.0% (range: -7.5% to -3.7%); previous: -7.6%**
- **Construction managed to grow 0.1% yoy, improving meaningfully from the -6.1% observed in July. Nevertheless, machinery and equipment was still weak at -9.5% (previous: -9.6%)**
- **In seasonally adjusted terms, GFI advanced 1.5%, which is positive albeit only after three consecutive months of significant declines, hovering at levels last seen in late 2014**
- **We maintain our view that investment will improve gradually, although still challenged as business confidence is still relatively muted**

**GFI falls 4.3% yoy in August.** Investment contracted for a seventh straight month in annual terms at -4.3% yoy, above consensus (-6.0%) but closer to our -4.6% forecast. Despite the improvement relative to the -7.6% observed in July (and three-month average of -7.9%), the result suggests that this component of aggregate demand remains limited. As a result, GFI in the July-August period contracted 6.0%, accumulating a year-to-date decline of 4.6%.

As we have mentioned in previous publications, one of the most relevant and persistent drivers behind this weakness have been the reduction in the Federal Government's spending, with capital outlays in the month down 5.9% in real terms according to budget data. Moreover, uncertainty has been high and other idiosyncratic shocks have also impacted the sector, including the suspension of building projects in Mexico City. In this respect and in a more positive note, the Ministry of Finance recently announced the plan to speed-up the bidding process of infrastructure projects, particularly in public-private partnerships, in order to accelerate spending, with the aim for some of these resources to be exercised before year-end.

By sectors, construction increased 0.1% yoy, higher than the -6.1% of the previous month and continuing to outperform figures within the industrial production report (-2.9%). The residential sector was behind most of the improvement as it stood at +3.4% (previous: -6.9%), while the non-residential sector—more closely related to public spending—stayed muted at -2.9%. Machinery and equipment remains weak falling -9.5%, dragged again by the imported component (-12.0%) and consistent with the signal provided by the trade balance report, which showed capital goods imports at -14.0%. In our view, this latter result was likely influenced by peso weakness, with the USD/MXN averaging 19.69 per dollar in the month from 19.05 in July (and closing the period near year-to-date highs of 20.06). On the other hand, the domestic component was stronger at -5.5%, its fourth consecutive month in contraction territory. Contrary to our expectations given a favorable base-effect, it deteriorated relative to last month's performance (-1.6%). Transportation was the better performing sector, declining 4.8%, while 'others' decreased 6.4%.

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### Gross fixed investment

% yoy, nsa

	Aug-19	Aug-18	Jan-Aug'19	Jan-Aug'18
<b>Total</b>	<b>-4.3</b>	<b>-2.2</b>	<b>-4.6</b>	<b>1.9</b>
<b>Construction</b>	<b>0.1</b>	<b>-1.9</b>	<b>-2.8</b>	<b>0.7</b>
Residential	3.4	-2.9	-1.9	3.5
Non-residential	-2.9	-0.9	-3.6	-1.8
<b>Machinery and equipment</b>	<b>-9.5</b>	<b>-2.6</b>	<b>-6.9</b>	<b>3.5</b>
<i>Domestic</i>	-5.5	-11.9	-4.4	-3.4
Transportation equipment	-4.8	-1.9	2.2	-5.4
Other machinery and equipment	-6.4	-23.7	-14.0	-0.4
<i>Imported</i>	-12.0	3.9	-8.5	8.2
Transportation equipment	4.9	3.0	0.4	4.9
Other machinery and equipment	-14.5	4.0	-9.9	8.8

Source: INEGI

**Seasonally-adjusted figures show a broad recovery, but only after persistent weakness.** In particular, GFI rebounded 1.5% m/m. Nevertheless, this came only after three consecutive months contracting strongly. As a result, activity remains near levels not seen since around late 2014. Inside, construction picked-up by 3.6%, reversing the -1.3% observed in July. It should be noted that support came mainly from the residential sector (5.1%), with the non-residential lagging at 1.8%. We believe this may be related to the reactivation of some projects, particularly in Mexico City, with some reports suggesting that the local government increased efforts to reactivate the sector. Nevertheless, we need additional information to confirm this may have been the case, particularly for September at the national level (given that in this month, efforts gathered speed) and until the publication of data for this state, which is released with a considerable lag. On the other hand, machinery and equipment edged-up 1.1%. Inside, and unlike what was observed in the annual comparison, the imported component rose 4.6%, with increases in the last two months. However, these improvements fail to reverse the 11.1% contraction seen in June. On the other hand, the domestic sector fell 3.8%, accumulating four consecutive contractions, also differing from what was seen in the annual figures. In this sense, we will have to pay attention to the dynamics within these sectors in the coming months in order to assess the true trend that the activity is presenting. The 3m/3m saar rate improved for second straight month, although it remains very low in absolute terms at -5.2% and in negative territory since a brief rebound observed in March.

### Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Aug-19	Jul-19	Jun-19	Jun-Aug'19	May-Jul'19
<b>Total</b>	<b>1.5</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-5.2</b>	<b>-11.6</b>
<b>Construction</b>	<b>3.6</b>	<b>-1.3</b>	<b>4.3</b>	<b>5.1</b>	<b>-12.8</b>
Residential	5.1	0.1	4.7	6.9	-17.9
Non-residential	1.8	-3.3	5.6	5.4	-7.3
<b>Machinery and equipment</b>	<b>1.1</b>	<b>-0.7</b>	<b>-5.3</b>	<b>-20.9</b>	<b>-16.5</b>
<i>Domestic</i>	-3.8	-2.6	-0.2	-13.5	-2.2
Transportation equipment	-4.5	-7.1	0.6	-16.2	8.3
Other machinery and equipment	0.1	5.5	-1.7	-3.7	-16.1
<i>Imported</i>	4.6	3.9	-11.1	-25.0	-24.4
Transportation equipment	-0.3	7.6	-7.9	6.2	5.0
Other machinery and equipment	5.5	4.6	-12.6	-29.9	-29.4

Source: INEGI

**Not enough evidence to suggest a better outlook in investment, yet.** Unfortunately, and similar to our comment in the previous month, today's report does not provide enough evidence to support the view of a gradual recovery in investment. In this respect and despite the relatively positive signal from the sequential rebound in construction, it came only after deep losses in recent periods.

More importantly and going forward, business confidence failed to gather additional pace in September after two consecutive months up. The decline was observed in all subsectors (construction, commerce, non-financial services and manufacturing), including in the 'adequate moment to invest' component. In our view, this lowers the probability that confidence has already bottomed out, particularly in a context in which uncertainty has not dissipated convincingly enough and economic activity remains limited. To the latter, we must add that capital goods imports in September fell significantly once again (-13.5% yoy; -3.6% m/m), suggesting lingering weakness in imported machinery and equipment. On the contrary, capital spending according to the public finance report for the same month showed a 27.5% yoy increase. In our view, this could be related to the Federal Government's implementation of investment projects, particularly on the back of recent efforts to push forward spending even to this year in order to support economic activity. Nevertheless, we need to see if this increase translates into an improvement in overall activity.

Overall, the report strengthens the case that a cautious stance, particularly in the private sector, will likely prevail in the short term. In that respect, investment remains as the weakest link for GDP, with our current forecast of a 4.4% decline in full-year 2019. Despite of this, we are still optimistic that it could improve gradually, and particularly in 2020, mainly based on: (1) The possibility of a relatively earlier approval of USMCA in the US, with the latest press reports, showing some willingness from Democrats to support the agreement; and (2) easier financial conditions, with Banxico likely lowering the reference rate the rest of this year and next, estimating it will end 2020 at 6.00%, 175bps lower than its current level. On the contrary, we think that a necessary condition for a sustained improvement is to see a clear recovery in confidence, a situation that so far is has not shown to be persistent.

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