

GFI – July’s contraction explained by lower construction output

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- **Gross fixed investment (July): -2.5% yoy (nsa); Banorte-Ixe: -1.8%; consensus: -1.4% (range of estimates: -3.2% to 0.6%); previous: -0.9%**
- **In seasonally adjusted terms, GFI posted a 1.5% m/m contraction, given the 4.5 m/m reduction in construction output**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
 - (1) **The fiscal cuts implemented by the federal government, which have affected Mexico’s public investment projects; and**
 - (2) **The uncertainty surrounding Mexico’s economic and political environment**

GFI down by -1.5% m/m. According to *INEGI*’s report, gross fixed investment posted a 2.5% yoy contraction in July, below our -1.5% yoy forecast (consensus: -1.4% yoy). Taking a look at the breakdown, construction output fell 5.3% yoy, while investment in machinery and equipment increased 1.7% yoy.

In seasonally adjusted terms, GFI declined 1.5% m/m. Taking a look at the breakdown, investment in construction posted a 4.5% contraction, as a result of the 8.6% reduction in residential construction. In addition, non-residential construction fell 1.4% m/m. By contrast, investment in machinery and equipment increased 0.5% m/m, as a result of the 1.5% expansion in the imported component (refer to the table below).

Looking ahead, we believe that GFI will maintain a downward trend. Today’s figures validate our view of a deceleration of investment levels. We believe that the contraction stems from: (1) The fiscal cuts implemented by the federal government which have affected Mexico’s public investment projects; and (2) the uncertainty surrounding Mexico’s economic and political environment. Looking ahead, we expect these factors to continue to weigh on investment decisions in our country in the coming months.

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Gross fixed investment: July 2017

% m/m; sa

	Jul-17	Jun-17	May-17
Total	-1.5	-2.0	2.9
Construction	-4.5	1.1	1.8
Residential	-8.6	2.7	2.0
Non-residential	-1.4	-0.4	1.6
Machinery and equipment	0.5	-2.5	2.3
Domestic	-0.7	-0.1	-5.9
Transportation equipment	-0.2	1.0	-6.4
Other M&Eq	1.1	1.3	-5.5
Imported	1.5	-5.4	8.0
Transportation equipment	-7.6	-8.3	19.9
Other M&Eq	2.3	-4.1	5.8

Source: INEGI

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