Strong decline of GFI throughout the first quarter of the year

June 5, 2017

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

- **Gross fixed investment (March): 3.9% yoy (nsa); Banorte-Ixe: 5.5%; consensus: 3.2% (range of estimates: 1.7% to 6.6%); previous: -3.3%**
- **GFI's expansion was explained by a calendar effect, given that the *Holy Week* added working days to the annual comparison**
- **Controlling for this calendar effect, GFI posted a 1.2% contraction, as a result of the fall in construction, where we highlight the 10.8% reduction in the non-residential sector**
- **However, machinery and equipment (M&Eq) grew by 4.3% yoy, given the 3.1% increase in domestic M&Eq investment coupled with the 4.8% growth of imported M&Eq (calendar adjusted figures)**
- **GFI posted a 2% yoy contraction in the first quarter of the year (calendar adjusted figures)**
- **In seasonally adjusted terms, GFI increased 0.9% m/m in March, but fell 6.2% 3m/3m saar**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
  (1) The fiscal consolidation implemented by the federal government which has affected Mexico's drilling and public investment projects; and
  (2) The uncertainty surrounding the impact of Trump's policies in the Mexican economy

GFI maintains a downward trend. According to *INEGI's* report, gross fixed investment increased 3.9% yoy in March, after the 3.3% contraction in February (Banorte-Ixe: 5.5% yoy; consensus: 3.2%). However, GFI's expansion was explained by a calendar effect, resulting from the *Holy Week* which added working days to the annual comparison. Adjusting for this calendar effect, GFI fell 1.2% yoy in March, and adds a 2% contraction in the first quarter of the year.

Taking a look at the breakdown, and analyzing the calendar adjusted series, investment in domestic machinery and equipment increased 3.1% yoy, while the imported component grew 4.8% yoy. In addition, investment in construction posted a 4.8% contraction, as a result of the 10.8% reduction in non-residential construction, which now adds twenty consecutive months in contraction. In this context, the fall in non-residential construction investment reflects the fiscal consolidation efforts made by the federal government, which have affected Mexico's drilling and public investment projects. By contrast, investment in residential construction increased 2% yoy (refer to the first table on the next page).

Gross fixed investment: March 2017
% yoy; calendar adjusted figures

	Mar-17	Feb-17	Jan-17
Total	-1.2	-3.0	-1.8
Construction	-4.8	-4.3	-3.7
Residential	2.0	1.4	-0.4
Non-residential	-10.8	-8.9	-6.2
Machinery and equipment	4.3	2.5	1.2
Domestic	4.8	8.0	4.2
Transportation equipment	3.7	7.2	3.5
Other M&Eq	5.2	8.4	4.3
Imported	3.1	0.2	0.3
Transportation equipment	22.2	-0.2	13.3
Other M&Eq	0.9	-2.5	-1.3

Source: INEGI

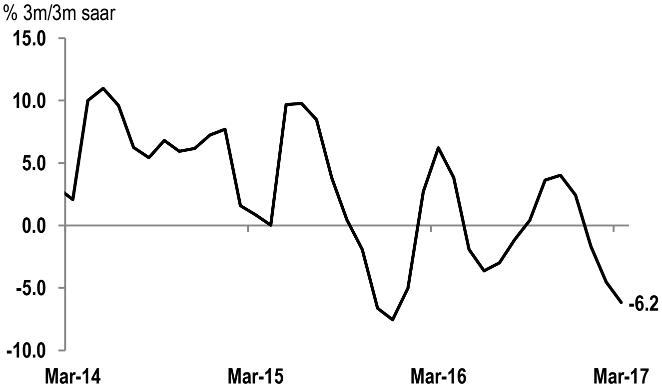
In seasonally adjusted terms, GFI increased 0.9% m/m. Taking a look at the breakdown, investment in imported machinery and equipment posted a 1.9% expansion, while domestic purchases were down by 1.4%. In addition, investment in the construction sector fell 0.3% m/m. With today's figures, GFI posted a 6.2% 3m/3m saar contraction. In addition, construction fell 9.7% as a result of the 15.4% reduction in non-residential construction (refer to the charts below).

Gross fixed investment: March 2017
% m/m; sa

	Mar-17	Feb-17	Jan-17
Total	**0.9**	**-0.6**	**-1.8**
Construction	**-0.3**	**-1.4**	**-0.8**
Residential	1.4	-0.5	-0.7
Non-residential	-1.5	-2.1	-2.1
Machinery and equipment	**1.0**	**0.4**	**-2.7**
Domestic	-1.4	2.2	-4.2
Transportation equipment	1.3	1.3	-7.5
Other M&Eq	-1.9	2.0	0.7
Imported	1.9	-1.1	-1.3
Transportation equipment	9.8	-10.5	7.9
Other M&Eq	1.7	-0.7	-2.6

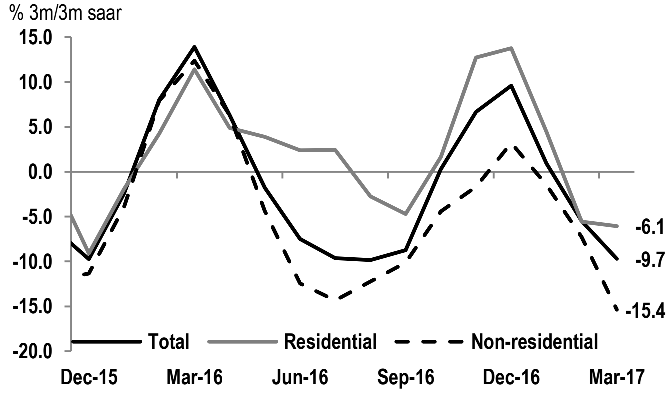
Source: INEGI

Gross fixed investment
% 3m/3m saar



Source: Banorte-IXE

Construction: Total and Non residential
% 3m/3m saar



Source: Banorte-IXE

Looking ahead, we believe that GFI will maintain a downward trend. The seasonal adjusted series for the first quarter validates our view of a deceleration of investment levels. We believe that the contraction stems from: (1) The fiscal consolidation implemented by the federal government which has affected Mexico's drilling and public investment projects; and (2) the uncertainty surrounding the impact of Trump's policies in the Mexican economy. Looking ahead, we expect these factors to continue to weigh investment decisions in our country in the coming months.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454