

# Gross Fixed Investment – Fiscal cuts behind September’s 0.7% yoy scant growth

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- **Gross fixed investment (September): 0.7% yoy; Banorte-Ixe: 0.9%; consensus: 0.7% (range of estimates: -2.9% to 1.5%); previous: 1.3%**
- **GFI’s growth was explained by the 5.7% yoy expansion in machinery and equipment coupled with the 2.6% contraction in construction output**
- **In seasonally adjusted terms, GFI increased 1.3% m/m**
- **Looking ahead, we believe that GFI will continue to fall as a result of the fiscal cuts implemented by the federal government**

**GFI increased 0.7% yoy in September.** According to *INEGI’s* report, gross fixed investment in September posted a 0.7% yoy expansion, marginally below our 0.9% yoy forecast (consensus: 0.7%; previous: 1.3%). Taking a look at the breakdown, investment in domestic machinery and equipment climbed 13.2% yoy, while the imported component expanded 2.4% yoy.

However, investment in construction fell 2.6% yoy, as a result of the 5.8% reduction in non-residential construction, which now adds sixteen 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 below).

**Gross fixed investment: September 2016**

% yoy

	Sep-16	Sep-15	Jan-Sep, '16	Jan-Sep, '15
<b>Total</b>	0.7	5.5	0.2	5.6
<b>Construction</b>	-2.6	0.6	-0.5	3.1
Residential	1.4	6.9	3.9	4.4
Non-residential	-5.8	-4.0	-3.9	2.2
<b>Machinery and equipment</b>	5.7	14.1	1.3	9.7
Domestic	13.2	9.5	8.7	10.4
Transportation Equipment	22.2	19.0	14.7	16.2
Other machinery and equipment	3.6	0.9	2.5	4.9
Imported	2.4	16.2	-2.0	9.4
Transportation Equipment	38.0	-7.0	2.9	0.6
Other machinery and equipment	-1.6	19.6	-2.7	10.6

Source: INEGI

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**In seasonally adjusted terms, GFI increased 1.3% m/m.** Taking a look at the breakdown, investment in domestic machinery and equipment posted a 4.3% m/m expansion, while the imported component increased 5.7% m/m. In addition, investment in the construction sector expanded 0.5% m/m, despite the 1.5% m/m contraction in non-residential construction. With today's figures, GFI posted a 2.1% 3m/3m saar growth. However, construction has fallen 8.5%, given the 11.7% reduction in non-residential construction (refer to the charts below).

**Gross fixed investment: September 2016**

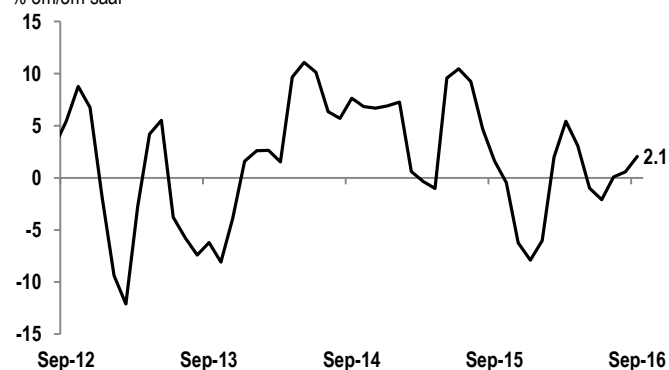
% m/m

	Sep-16	Aug-16	Difference
<b>Total</b>	<b>1.3</b>	<b>0.8</b>	<b>0.6</b>
<b>Construction</b>	<b>0.5</b>	<b>-0.8</b>	<b>1.3</b>
Residential	3.1	-3.6	6.7
Non-residential	-1.5	2.3	-3.8
<b>Machinery and equipment</b>	<b>4.1</b>	<b>2.1</b>	<b>2.0</b>
Domestic	4.3	0.1	4.2
Transportation equipment	6.6	-0.3	6.9
Other M&Eq	0.5	0.5	0.0
Imported	5.7	2.7	2.9
Transportation equipment	4.3	30.3	-26.0
Other M&Eq	4.7	-0.1	4.8

Source: INEGI

**Gross fixed investment**

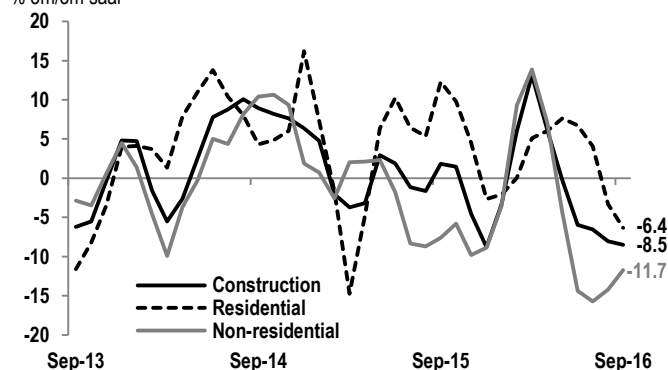
% 3m/3m saar



Source: Banorte-IXE

**Gross fixed investment: Construction**

% 3m/3m saar



Source: Banorte-IXE

**Looking ahead, we believe that GFI figures will continue to fall.** We believe that GFI's outlook for the last quarter of the year will continue to deteriorate. In particular, construction output will probably be significantly lower, as a result of: (1) The decline in public investment projects, given the fiscal cuts implemented by the Federal Government; and (2) the additional budget cut in Mexico's oil and drilling projects, which has limited Mexico's oil production and infrastructure development.

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