

## Gross Fixed Investment – FX and fiscal cuts behind June’s 0.5% yoy contraction

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- **Gross fixed investment (June): -0.5% yoy; Banorte-Ixe: 1.1%; consensus: 0.4% (range of estimates: -4.5% to 2%); previous: 1.6%**
- **GFI’s contraction during June was explained by the moderate 1.5% yoy increase in construction spending, coupled with a 7.9% contraction in capital goods imports**
- **In seasonally adjusted terms, GFI posted a 1% m/m expansion**
- **Looking ahead, we believe that GFI figures will continue to fall**

**June’s contraction explained by the depreciation of the Mexican currency.** According to *INEGI*’s report, gross fixed investment in June posted a 0.5% yoy contraction, below our 1.1% yoy growth forecast (consensus: 0.4%; previous: 1.6%). Taking a look at the breakdown, investment in domestic machinery and equipment edged-up to 7.9% yoy, while the imported component declined 7.9% yoy, given the significant depreciation of the Mexican currency during the second quarter of the year.

Moreover, investment in construction increased 1.5% yoy, as a result of the 7% growth in residential construction, coupled with the 2.9% contraction in non-residential construction, which now adds thirteen consecutive months in contraction, as a result of the reduction in public investment projects, which has affected Mexico’s oil drilling projects (refer to the table below).

**Gross fixed investment: June 2016**

% yoy

%yoy	Jun-16	Jun-15	Jan-Jun, '16	Jan-Jun, '15
<b>Total</b>	-0.5	8.4	0.6	5.5
<b>Construction</b>	1.5	0.3	1.0	3.0
Residential	7.0	1.9	5.9	3.4
Non-residential	-2.9	-0.9	-2.8	2.7
<b>Machinery and equipment</b>	-3.2	22.1	0.1	9.6
Domestic	7.9	15.9	7.6	10.5
Transportation Equipment	10.5	25.3	14.0	16.0
Other machinery and equipment	5.0	6.7	1.3	5.6
Imported	-7.9	24.9	-3.2	9.2
Transportation Equipment	9.8	10.4	-4.2	2.3
Other machinery and equipment	-9.9	26.8	-3.0	10.1

Source: INEGI

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**In seasonally adjusted terms, GFI increased 1% m/m in June.** Taking a look at the breakdown, investment in domestic machinery and equipment posted a 0.3% contraction, while the imported component increased 4.2% m/m. Finally, investment in the construction sector grew 0.7% m/m, as a result of the 1.3% m/m increase in residential construction.

However, despite June's growth, GFI posted a 2.1% 3m/3m saar contraction. Moreover, construction has fallen 3.9%, given the 12.8% reduction in non-residential construction. However, investment in residential construction has increased 10.9% (refer to the charts below)

**Gross fixed investment: June 2016**

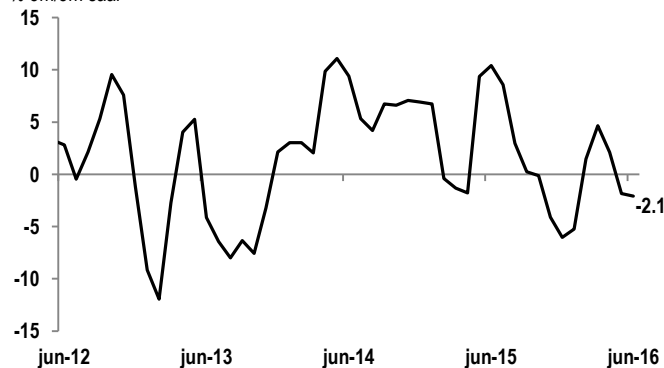
% m/m

%m/m sa	Jun-16	May-16	Apr-16
<b>Total</b>	<b>1.0</b>	<b>1.1</b>	<b>-1.6</b>
<b>Construction</b>	<b>0.7</b>	<b>-0.9</b>	<b>-0.6</b>
Residential	1.3	-0.3	1.6
Non-residential	0.2	0.1	-4.7
<b>Machinery and equipment</b>	<b>3.1</b>	<b>3.0</b>	<b>-1.4</b>
Domestic	-0.3	7.4	-5.0
Transportation equipment	1.6	4.2	0.5
Other M&Eq	1.1	4.6	-3.7
Imported	4.2	2.3	-2.0
Transportation equipment	18.0	4.4	4.4
Other M&Eq	3.2	2.2	-2.6

Source: INEGI

**Gross fixed investment**

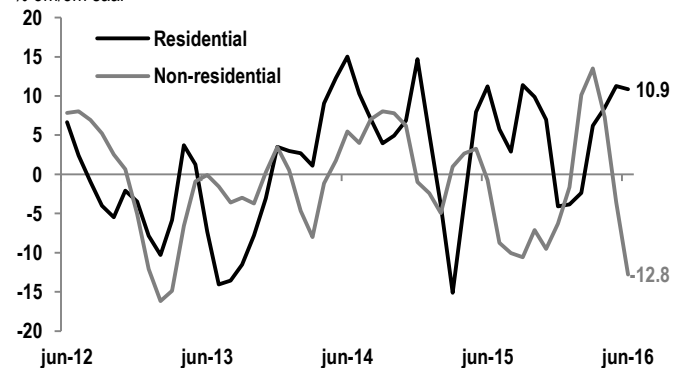
% 3m/3m saar



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 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 9.5% yoy in July. 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 June 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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