

GFI – February’s growth explained by an unusual surge in M&Eq imports

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- **Gross fixed investment (February): 5.2% yoy; Banorte-Ixe: 4.4%; consensus: 4.4% (range of estimates: 1.8% to 7.1%); previous: 0.1%**
- **Investment in construction projects increased 2.5% as a result of a 5.5% yoy expansion in residential construction and a scant 0.3% increase in non-residential construction projects**
- **In seasonally adjusted terms, GFI declined 0.1% m/m**
- **Looking ahead, we believe that GFI figures will show a significant deceleration during the first half of the year**

Higher growth explained by an unusual surge in imported M&Eq. According to *INEGI's* report, gross fixed investment in February posted a 5.2% yoy expansion, above the 0.1% growth in January (Banorte-Ixe: 4.4%, consensus 4.4%). Taking a look at the breakdown, investment in domestic machinery and equipment edged-up 6.9% yoy, while the imported component increased 11% yoy despite the significant depreciation of the Mexican currency in February. Moreover, the construction sector increased 2.5%, as a result of a scant 0.3% expansion in non-residential construction investment given the reduction in public investment projects. However, residential construction increased 5.5% yoy, as shown in the table below.

Gross fixed investment: February 2016

% yoy	Feb-16	Feb-15	Jan-Feb, '16	Jan-Feb, '15
Total	5.2	1.0	2.5	4.9
Construction	2.5	1.5	2.1	3.7
Residential	5.5	0.3	7.4	2.4
Non-residential	0.3	2.5	-1.8	4.6
Machinery and equipment	9.7	0.2	3.2	6.9
Domestic	6.9	6.2	7.5	9.5
Transportation Equipment	8.9	14.3	11.9	15.6
Other machinery and equipment	5.1	-0.4	3.6	4.5
Imported	11.0	-2.4	1.3	5.8
Transportation Equipment	-1.2	-5.3	4.3	-8.0
Other machinery and equipment	12.7	-2.0	0.9	7.8

Source: INEGI

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In seasonally adjusted terms, investment fell 0.1% m/m in February. We highlight that the 0.1% m/m reduction differs significantly from the higher contraction reported for all of its components. Taking a look at the breakdown, investment in domestic machinery and equipment posted a 3.8% contraction, while the imported component decreased 2.1% m/m. Finally, investment in the construction sector fell 1.8% m/m, as shown in the table below.

Gross fixed investment: February 2016

%m/m sa	Feb-16	Jan-16	Difference
Total	-0.1	0.7	-0.9
Construction	-1.8	3.5	-5.3
Machinery and equipment	-2.0	-0.5	-1.5
Domestic	-3.8	-0.2	-3.6
Imported	-2.1	-1.3	-0.8

Source: INEGI

Looking ahead, we believe that GFI figures will show a significant deceleration in the first half of the year. Despite the 5.2% yoy growth in February's GFI, we believe that the outlook for the first semester will be more negative. In particular, the latest trade balance report published by Banxico and *INEGI* shows that M&Eq imports fell 14.8% yoy in March.

Moreover, we believe that construction output will be significantly lower as a result of the decline in public investment projects given the fiscal cut announced by the Federal Government on November 2015. In addition, the new fiscal cut announced by the MoF on February 17 will further limit the government's ability to invest in public projects, which will be reflected in lower domestic investment figures throughout the first half of the year.

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