

GFI report – Investment in imported M&Eq improved in June despite the depreciation of the MXN

September 3, 2015

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@analisis_fundam

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

- **Gross fixed investment (June): 8.6%; Banorte-Ixe: 8.2%; consensus: 6.5% (range of estimates: 4.3% to 8.2%); previous: 2.4%**
- **In seasonally adjusted terms, GFI increased 2.9% m/m**
- **Looking ahead, we believe that GFI figures will continue to show a more visible recovery**

Higher investment in imported machinery and equipment. According to INEGI's report, gross fixed investment in June posted an 8.6% yoy expansion, below Bloomberg's median estimate of 6.5%, but similar to our 8.2% yoy forecast. Taking a look at the breakdown, investment in domestic machinery edged-up 16.1% yoy, while the imported component increased 24.8% yoy despite the significant depreciation of the Mexican currency. Moreover, the construction sector grew a scant 0.6%, as a result of a 1.6% yoy expansion in residential construction, and a 0.11% contraction in non-residential construction investment, as shown in the table below. With today's report, GFI now adds a 5.4% yoy expansion in the first half of the year.

Gross fixed investment: June 2015

| %yoy | Jun-15 | Jun-14 | Jan-Jun, '15 | Jan-Jun, '14 |
|--------------------------------|--------|--------|--------------|--------------|
| Total | 8.6 | 2.1 | 5.4 | -0.6 |
| Construction | 0.6 | 0.8 | 2.7 | -2.2 |
| Residential | 1.6 | 2.8 | 4.8 | -1.2 |
| Non-residential | -0.1 | -0.7 | 1.0 | -2.9 |
| Machinery and equipment | 22.1 | 4.4 | 9.9 | 2.2 |
| Domestic | 16.1 | 3.4 | 11.6 | -1.1 |
| Transportation Equipment | 23.6 | 7.8 | 16.5 | -5.0 |
| Other machinery and equipment | 9.3 | -0.3 | 7.4 | 2.5 |
| Imported | 24.8 | 4.9 | 9.1 | 3.6 |
| Transportation Equipment | 10.4 | -7.6 | 2.0 | -6.8 |
| Other machinery and equipment | 26.7 | 6.8 | 10.2 | 5.3 |

Source: INEGI

In seasonally adjusted terms, investment increased 2.9% m/m in June. Investment in domestic machinery and equipment edged-up 1.6% m/m, while the imported component increased 8.3% m/m. Finally, investment in the construction sector decreased 0.2% m/m. With these numbers GFI posted a 9% 3m/3m saar expansion, as shown in the chart on the next page.

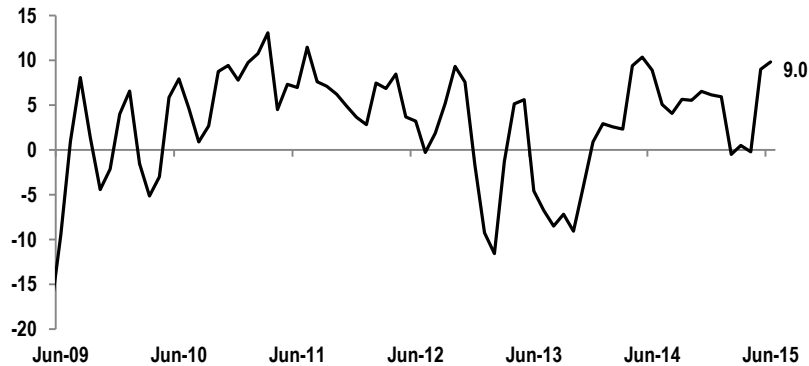
Gross fixed investment: June 2015

| %m/m sa | Jun-15 | May-15 | Difference |
|-------------------------|--------|--------|------------|
| Total | 2.9 | -0.9 | 3.7 |
| Construction | -0.2 | -1.4 | 1.1 |
| Machinery and equipment | 6.5 | 0.3 | 6.2 |
| Domestic | 1.6 | 0.1 | 1.5 |
| Imported | 8.3 | 0.2 | 8.1 |

Source: INEGI

Gross fixed investment

3m/3m saar



Source: Banorte-ixe

Looking ahead, we believe that GFI figures will continue to show a more visible recovery. June's expansion in imported M&Eq was explained despite the weakness of the Mexican peso, which suggests that Mexican firms have decided to increase their investment spending given the more positive outlook that persists about the Mexico's economic growth. On the other hand, construction output has decelerated in the last months. However, construction in the residential sector has maintained a favorable performance given the recovery in household's spending and the improvement in consumers' sentiment. In this regard, we believe that the next GFI reports will reflect these factors and will show a more visible recovery in the second half of the year.

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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 Godínez | 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 |
| Rey Saúl Torres Olivares | Analyst | saul.torres@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 |
| Marisol Huerta Mondragón | Equity Research Analyst – Food/Beverages | marisol.huerta.mondragon@banorte.com | (55) 1670 - 1746 |
| José Itzamna Espitia Hernández | Equity Research Analyst – Airports / Cement / Infraestructure / Fibras | jose.espitia@banorte.com | (55) 1670 - 2249 |
| Valentín III Mendoza Balderas | Equity Research Analyst – Auto parts | valentin.mendoza@banorte.com | (55) 1670 - 2250 |
| María de la Paz Orozco García | Analyst | maripaz.orozco@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 | hugo.gomez@banorte.com | (55) 1670 - 2247 |
| Idalia Yanira Céspedes Jaén | Analyst, Corporate Debt | idalia.cespedes@banorte.com | (55) 1670 - 2248 |

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.cebillos@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 | ricardo.velazquez@banorte.com | (55) 5268 - 9879 |
| Victor Antonio Roldan Ferrer | Head of Corporate Banking | victor.rolan.ferrer@banorte.com | (55) 5004 - 1454 |