

GFI – Strong recovery explained by higher investment in construction

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

- **Gross fixed investment (December): -0.4% yoy (nsa); Banorte: 0.2%; consensus: -0.6% (range of estimates: -4.5% to 3%); previous: -4.5%**
- **GFI posted a 1.5% yoy contraction in 2017, below the 1.1% expansion observed in 2016**
- **In seasonally adjusted terms, GFI posted a 4% m/m expansion in December, given the 4.4% m/m expansion in construction**
- **Looking ahead, we believe that private GFI will maintain a downward trend as a result of the uncertainty surrounding Mexico’s economic and political environment**
- **However, we consider that public GFI will bounce back as soon as 1Q18 given the 2018 presidential elections, which will translate in a higher government spending within the federal entities and municipalities**

GFI up by 4% m/m. According to *INEGI’s* report, gross fixed investment posted a 0.4% yoy contraction in December, below our 0.2% forecast (consensus: -0.6% yoy). Taking a look at the breakdown, construction output increased 2.8% yoy, while investment in machinery and equipment declined by 4.5%. Year-to-date, GFI posted a 1.5% contraction in 2017, below the 1.1% expansion observed in 2016.

In seasonally adjusted terms, GFI increased 4% m/m. Investment in construction posted a 4.4% m/m expansion. In addition, investment in machinery and equipment edged-up 2.7% m/m, as a result of the 4.3% increase in the imported component. Moreover, domestic machinery and equipment investment posted a 1.8% m/m increase (refer to the table below).

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

	Dec-17	Nov-17	Oct-17
Total	4.0	-1.4	-0.9
Construction	4.4	-0.6	-0.7
Residential	2.6	-0.1	-1.4
Non-residential	2.6	0.3	0.4
Machinery and equipment	2.7	-0.6	-2.5
Domestic	1.8	-1.9	-5.7
Transportation equipment	10.6	-8.1	-12.3
Other M&Eq	-3.9	2.4	2.6
Imported	4.3	0.8	-2.6
Transportation equipment	11.8	-2.1	-0.7
Other M&Eq	3.5	0.7	-2.6

Source: INEGI

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Looking ahead, we believe that private GFI will maintain a downward trend. We continue to believe that private investment will decelerate as a result of the uncertainty surrounding Mexico's economic and political environment. It is likely that private firms will postpone their investment projects until they have greater certainty regarding the political landscape after Mexico's presidential election and the prospects of a successful NAFTA renegotiation.

However, we believe that public GFI will bounce back as soon as 1Q18 given the electoral process of 2018, which will translate in a higher government spending within the federal entities and municipalities.

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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
Francisco José Flores Serrano	Economist, Mexico	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 Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist 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	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – 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	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@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	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454