GFI significantly down in October, due to weakness in transportation

- **Gross fixed investment (October): -8.6% y/y (nsa); Banorte: -7.6%; consensus: -8.0% (range: -10.6% to -7.0%); previous: -6.8%**
- **As expected, GFI added a second month in contraction, falling 1.5% m/m (sa), strongly impacted by shocks in the auto sector, with transportation equipment down, both local (-7.8%) and imported (-2.5%)**
- **In addition, construction also edged-down 1.7% m/m, which is significant after the -5.2% in September. Nevertheless, more timely figures –such as the IP report– seem to be starting to point to a gradual recovery**
- **Signs of a recovery in investment in the short-term are still missing. Despite of the latter, we remain more positive about the outlook in 2020**

GFI contracts 8.6% y/y in October, with adverse shocks taking their toll. In the yearly comparison, investment declined once again, standing below both consensus (-8.0%) and our forecast (-7.6%), now adding 9 months in contraction. In this context, GFI accumulates a year-to-date fall of 5.2%, below our full-year forecast of 4.6%, adding even more downside risks. In line with our expectation, this month's figures were impacted by shocks in the auto sector, resulting in a 22.2% y/y fall in imported transportation equipment, while the domestic sector edged-down 5.6% (Table 1, below). In our view, today's report confirms that investment remains as the weakest component within aggregate demand.

Weakness prevails, extending recent losses. In the monthly comparison, GFI fell 1.5% (sa), which comes on top of the previous month's 1.1% drop (Chart 3). This is explained by overall softness in investment, as machinery and equipment contracted 1.8%, while construction fell 1.7%. In the former, the situation is more concerning as it further extends on the decline observed in September. As we previously mentioned, the negative shock in the auto sector –which comprised the GM strike, as well as planned maintenance in Ford's and VW's plants– had a significant impact, as evidenced by the 7.8% and 2.5% reduction in domestic and imported transportation equipment, respectively (Table 2). We believe the first one was more heavily affected during October considering that GM's local production was still ongoing in September (as evidenced by the 4.2% uptick in this category in said month), while imported goods were halted when the strike started, on September 15th (with a 6.6% decline in the month).

Going into construction, the non-residential sector was the main drag at -1.7%, underperforming the residential category –which declined 1.2%– for a fourth consecutive month. As mentioned in previous publications, infrastructure spending from the Federal Government –which comprises a large part of non-residential construction– has been one of the main factors behind this behavior.

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In particular, in October, physical investment outlays were down 6.0% y/y in real terms according to public finance data, with heavy declines since last February. In this context, we believe that an uptick in the remainder of 2019 will be difficult to observe, as evidenced by the 20.8% decline in this type of spending for November.

Signs of a recovery in investment in the short-term are still missing. Despite of the latter, we remain more positive about the outlook in 2020. The scenario for the rest of 4Q19 remains bleak, as evidenced by more timely figures, such as November's trade balance –with capital imports down 11.3% y/y, its sixth consecutive month with double-digit declines–, and IP for the same month –showing construction at -3.4% y/y–. However, within the latter there were some positive signs, as edification managed to post a 0.8% expansion, its first increase since March. This came in a context of still muted business confidence, with declines in both October and November, in conjunction with financing costs that remain elevated.

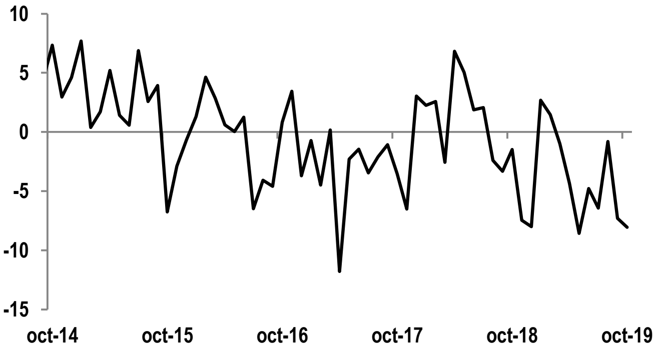
Nevertheless, there were some favorable developments toward the end of the year, which, while not necessarily having an impact in 2019, definitely set a more favorable scenario for this year. Among these, we highlight: (1) The agreement between the US and China which should stop further escalation in terms of trade tensions; (2) the renewed efforts to approve USMCA, with Mexico ratifying the new changes and with relevant advances set to move forward in the US this week; and (3) the infrastructure plan by the private sector announced last November, which could benefit overall investment as soon as early 2020. This should also be aided by further monetary easing from the central bank, which should in turn, help reduce financing costs. Despite of these improvements, we should note that there are still some headwinds for 2020, including the prospects of a deepening of the global decelerations as well as some relevant geopolitical risks, highlighting the Presidential Election in the US.

Table 1: Gross fixed investment
% y/y nsa

	Oct-19	Sep-19	Jan-Oct, '19	Jan-Oct, '18
Total	**-8.6**	**-6.8**	**-5.2**	**2.5**
Construction	**-8.0**	**-7.3**	**-3.7**	**1.0**
Residential	-6.4	-3.5	-2.3	3.1
Non-residential	-9.6	-10.7	-5.0	-0.9
Machinery and equipment	**-9.3**	**-6.1**	**-7.3**	**4.5**
Domestic	-5.7	-0.7	-4.6	-0.4
Transportation Equipment	-5.6	-0.9	-0.2	0.6
Other machinery and equipment	-5.8	-0.2	-11.5	-2.0
Imported	-11.6	-9.9	-9.0	8.0
Transportation Equipment	-22.2	-3.1	-2.8	5.6
Other machinery and equipment	-9.5	-10.9	-10.0	8.4

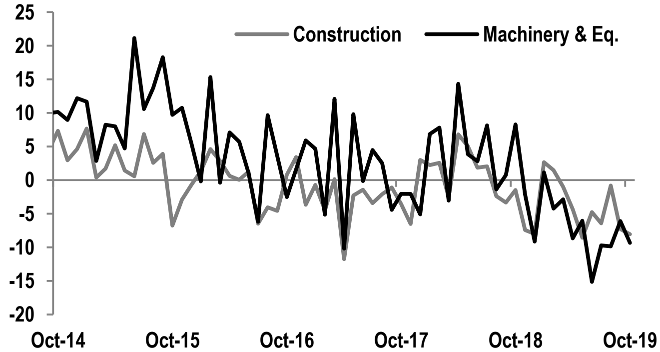
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector
% y/y



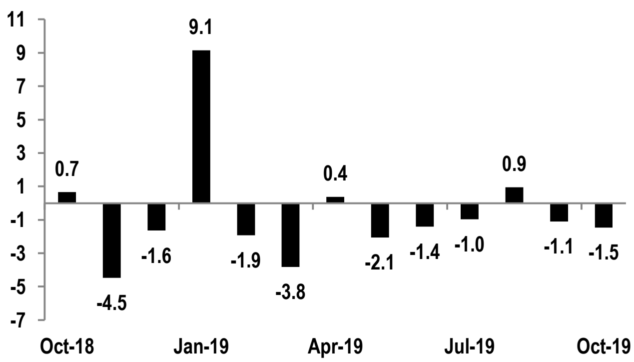
Source: INEGI

Table 2: Gross fixed investment
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Oct-19	**Sep-19**	**Aug-19**	**Oct-Aug '19**	**Sep-Jul '19**
Total	**-1.5**	**-1.1**	**0.9**	**-1.4**	**-2.3**
Construction	**-1.7**	**-5.2**	**3.9**	**-1.5**	**-1.8**
Residential	-1.2	-1.5	2.3	0.4	-1.1
Non-residential	-1.7	-5.0	1.9	-3.8	-3.4
Machinery and equipment	**-1.8**	**0.8**	**1.3**	**-0.6**	**-2.5**
Domestic	-6.3	4.9	-3.4	-3.4	-2.3
Transportation Equipment	-7.8	4.2	-5.1	-8.8	-7.4
Other machinery and equipment	-3.3	2.5	1.9	7.7	8.5
Imported	1.4	-2.1	4.5	2.1	-1.2
Transportation Equipment	-2.5	-6.6	-0.5	-4.0	3.4
Other machinery and equipment	2.2	-0.8	5.6	4.2	-1.1

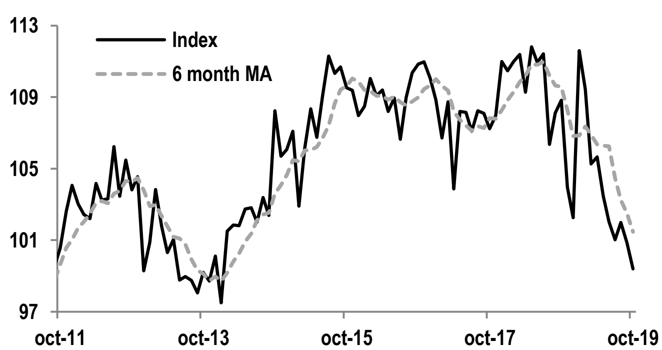
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

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