

Industrial production – August’s 1% yoy growth explained by manufacturing output

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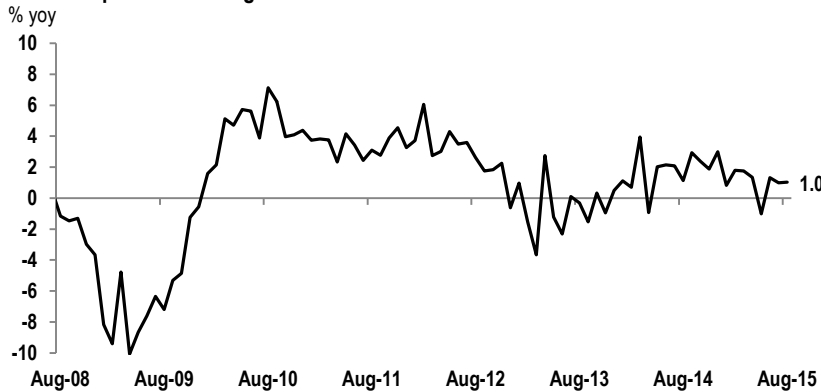
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- **Industrial production (August): 1% yoy; Banorte-Ixe: 0.9%; consensus: 1% (range: 0.1% to 1.5%); previous: 1%**
- **IP’s growth was partially explained by the stronger manufacturing output (3.1% yoy)**
- **Moreover, construction output expanded 2.1%, while mining activity fell 5.8% yoy**
- **In seasonally adjusted terms, industrial output increased 0.2% m/m, on the back of the 1% m/m expansion in manufacturing production, along with the 0.6% m/m reduction in construction activity**
- **Mining activity now adds seventeen consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

August’s growth explained by the stronger manufacturing output. *INEGI* just published its IP report for August, where the headline index increased 1% yoy (consensus: 1% yoy; Banorte-Ixe: 0.9%). IP’s growth was partially explained by the 3.1% yoy growth in manufacturing production. Moreover, construction output grew 2.1% yoy, while mining activity declined 5.8%, as a result of the significant contraction in Mexico’s oil production. With today’s report, the mining industry now adds seventeen consecutive months in contraction. Finally, utilities edged-up 4.5% yoy, as shown in the table on the following page.

Industrial production: August 2015



Source: INEGI, Banorte-Ixe

Industrial production: August 2015

%yoy	Aug-15	Aug-14	Jan-Aug, '15	Jan-Aug, '14
Total	1.0	1.1	1.0	1.5
Mining	-5.8	-1.8	-6.4	-0.9
Utilities	4.5	1.4	3.0	1.7
Construction	2.1	3.6	3.5	0.0
Manufacturing	3.1	1.4	2.9	3.3

%yoy calendar effect	Aug-15	Aug-14	Jan-Aug, '15	Jan-Aug, '14
Total	1.0	2.0	1.0	1.6
Mining	-5.8	-1.8	-6.4	-0.9
Utilities	4.5	1.4	3.0	1.7
Construction	2.6	3.9	3.6	0.1
Manufacturing	3.5	2.5	3.0	3.4

Contribution to growth	Aug-15	Aug-14	Difference
Total	1.0	1.1	-0.1
Mining	-1.3	-0.4	-0.9
Utilities	0.3	0.1	0.2
Construction	0.5	0.8	-0.3
Manufacturing	1.5	0.7	0.9

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 0.2% m/m. Taking a look at the breakdown, manufacturing output edged-up 1% m/m. Moreover, construction activity decreased 0.6% over the previous month, while mining production posted a 0.3% m/m contraction. With these figures, manufacturing output is up 1.6% 3m/3m saar, from the 4.4% expansion observed in 2Q15, as shown in the chart below.

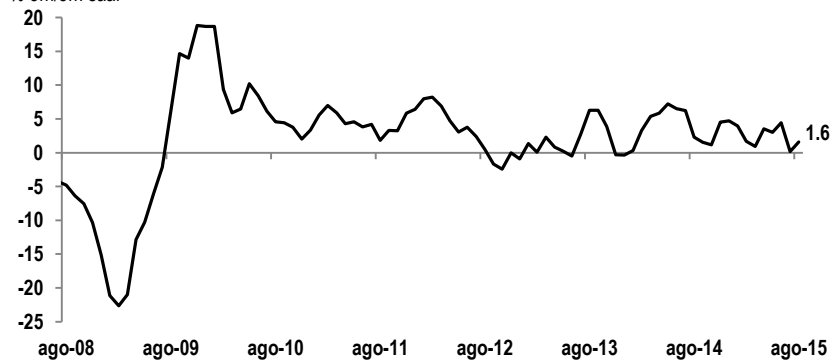
Industrial production: August 2015

%m/m sa	Aug-15	Jul-15	Difference
Total	0.2	0.3	-0.2
Mining	-0.3	0.3	-0.6
Utilities	1.0	1.3	-0.3
Construction	-0.6	1.6	-2.2
Manufacturing	1.0	-0.1	1.1

Source: INEGI, Banorte-Ixe

Manufacturing production

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect industrial production to gain momentum. The recent deceleration in Mexico's manufacturing output is mainly explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Moreover, we believe that Mexico's auto-industry will be affected by the recent Volkswagen scandal, given that this firm's production fell 35.2% yoy in September, while exports decreased 30.8% yoy.

Nevertheless, we believe that Mexico's non-vehicle manufacturing industry will strengthen in the last quarter of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that construction output will continue to recover in the last quarter of the year, given the upward trend in private consumption and investment. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico's oil production– will continue limiting the recovery of industrial activity.

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