

Industrial production – Strong decline in mining and construction output

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- **Industrial production (July): -1.6% yoy; Banorte-Ixe: 0.1%; consensus: -0.2% (range: -0.6% to 0.6%); previous: -0.3%**
- **The 1.6% contraction in July was explained by the 8.6% yoy decline in mining output, coupled with a 3.7% reduction in construction output**
- **With today's figures mining activity now adds 38 consecutive months in contraction**
- **In seasonally adjusted terms, industrial production fell 1% as a result of the 2.1% m/m reduction in construction output**
- **Looking ahead, we expect a further deceleration of industrial production as a result of lower manufacturing and construction output**

Strong decline in mining and construction output. INEGI just published its IP report for July, where the headline index posted a 1.6% yoy contraction, below our 0.1% growth forecast (consensus: -0.2% yoy). The reduction in industrial production was partially explained by the 8.6% yoy contraction in mining output, as a result of the significant fall in Mexico's oil production, as well as the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 38 consecutive months in contraction.

In addition, construction posted a significant 3.7% yoy contraction, which was explained by the 4.4% reduction in building projects, whereas public civil engineering construction projects declined 2.5% yoy, given the austerity program implemented by the Federal Government (refer to the table on the following page).

By contrast, manufacturing output increased a scant 2.2% yoy (Banorte-Ixe: 2.5%; Bloomberg consensus: 2.2%), as a result of a 22.7% contraction in the production of petroleum based products. However, machinery and equipment production increased 32%, whereas transportation equipment edged-up to 9.8% yoy.

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Industrial production: July 2017

% yoy; %-pts

%yoy	Jul-17	Jul-16	Jan-Jul, '17	Jan-Jul, '16
Total	-1.6	-1.4	-0.5	0.1
Mining	-8.6	-6.6	-9.9	-4.3
Utilities	-2.7	6.1	-1.5	3.7
Construction	-3.7	-1.0	-0.6	1.7
Manufacturing	2.2	-0.6	3.4	0.9

Contribution to growth	Jul-17	Jul-16	Difference
Total	-1.6	-1.4	-0.2
Mining	-1.7	-1.3	-0.3
Utilities	-0.2	0.4	-0.6
Construction	-0.8	-0.2	-0.6
Manufacturing	1.1	-0.3	1.4

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP fell 1% m/m. Taking a look at the breakdown, manufacturing output posted a 0.3% m/m expansion; however, construction output declined 2.1% m/m, as a result of the 5.5% reduction in building projects. In addition, mining activity fell 1.4% m/m. With these figures, industrial production posted a 2.3% 3m/3m annualized contraction, explained by the 3.2% fall in mining output. In addition, manufacturing production fell 0.4%, whereas construction declined 4.1% 3m/3m saar.

Industrial production: July 2017

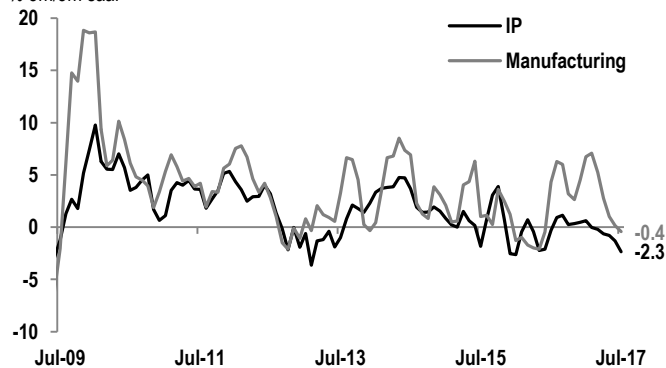
% m/m sa

	Jul-17	Jun-17	Difference
Total	-1.0	0.0	-1.0
Mining	-1.4	0.0	-1.4
Utilities	-0.3	0.6	-0.9
Construction	-2.1	-0.1	-2.0
Manufacturing	0.3	0.0	0.3

Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output

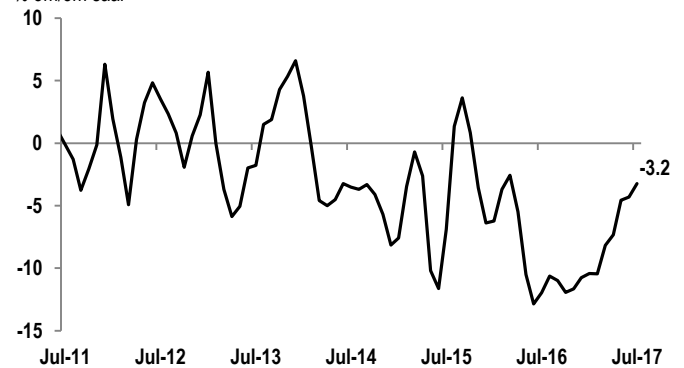
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Mining output

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect a deceleration of industrial production. As we have mentioned throughout our publications, manufacturing production growth during the first half of the year was mostly explained by the uncertain trade relation with the US, which fostered a higher flow of exports, hedging a scenario of future tariffs. Given that there is a consensus that the renegotiation of NAFTA will maintain the *status quo*, it is likely that the external demand for Mexican manufacturing exports, -particularly within the US- has diminished. As a result, we believe that both manufacturing production and exports will decelerate during the third and fourth quarter of the year.

In addition, the austerity program that the Federal Government has implemented will affect construction of public infrastructure projects. Similarly, we believe that the uncertainty generated by the political environment will continue to discourage private construction projects. Moreover, we believe that Mexico's mining industry will continue to fall throughout the year, as a result of Government's fiscal consolidation plan which has affected Mexico's drilling projects. All in all, we expect a deceleration of industrial production in the third and fourth quarter of the year.

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