

Industrial production stalled in March

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- **Industrial production (March): 3.4% yoy; Banorte-Ixe: 2.2%; consensus: 2.2% (range: -1% to 3.7%); previous: -1.9%**
- **The 3.4% expansion in March was explained by a calendar effect derived from the Holy Week, which added working days to the annual comparison**
- **Controlling for this calendar effect, industrial production was flat in March**
- **In seasonally adjusted terms, manufacturing production fell 0.3% m/m, while construction output posted a 0.2% reduction**
- **Looking ahead, we expect a marginal recovery of industrial production**

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IP stalled in March. INEGI just published its IP report for March, where the headline index posted a 3.4% yoy expansion, above our 2.2% forecast (consensus: -1.5% yoy). However, it was explained by a calendar effect derived from the Holy Week, which added working days to the annual comparison. Controlling for this calendar effect, industrial production was flat in March.

Taking a look at the breakdown, and analyzing the calendar-adjusted figures, manufacturing output increased 2.9% yoy. However, construction output rose a scant 0.7%, as a result of the 1.3% growth in building projects, whereas public civil engineering construction projects declined 12.1% yoy, given the fiscal cuts implemented by the Federal Government.

In addition, mining activity fell 9.2% as a result of the significant contraction in Mexico's oil production, as well as the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 34 consecutive months in contraction. Finally, utilities decreased 0.6%, as shown in the table below.

Industrial production: March 2017

% yoy

Original figures	Mar-17	Mar-16	Jan-Mar, '17	Jan-Mar, '16
Total	3.4	-2.2	0.5	0.0
Mining	-9.2	-4.6	-10.8	-3.2
Utilities	1.2	-0.3	-0.5	1.0
Construction	3.8	-1.7	1.5	1.3
Manufacturing	8.5	-1.6	4.8	0.7
Calendar adjusted figures	Mar-17	Mar-16	Jan-Mar, '17	Jan-Mar, '16
Total	0.0	0.0	-0.1	0.5
Mining	-9.2	-4.6	-9.8	-4.3
Utilities	-0.6	1.5	-1.1	1.6
Construction	0.7	0.8	0.5	2.3
Manufacturing	2.9	1.9	3.4	1.6

Source: INEGI, Banorte-Ixe

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In seasonally adjusted terms, IP remained unchanged in March. Taking a look at the breakdown, manufacturing output posted 0.3% m/m contraction, while construction output decreased 0.2% m/m. However, mining activity increased by 0.1% m/m.

With these figures, industrial production posted a 0.2% 3m/3m annualized growth, explained by the 4.9% fall in mining output, despite manufacturing's 4.3% 3m/3m saar growth (refer to the charts below).

Looking ahead, we expect industrial production to show a marginal recovery. We continue to believe that Mexico's manufacturing industry will recover in the coming months. We expect that the still depreciated Mexican peso will continue to benefit exports in the second quarter of the year. In addition, the uncertainty around the commercial relationship between Mexico and the US will probably boost the flow of exports during this period.

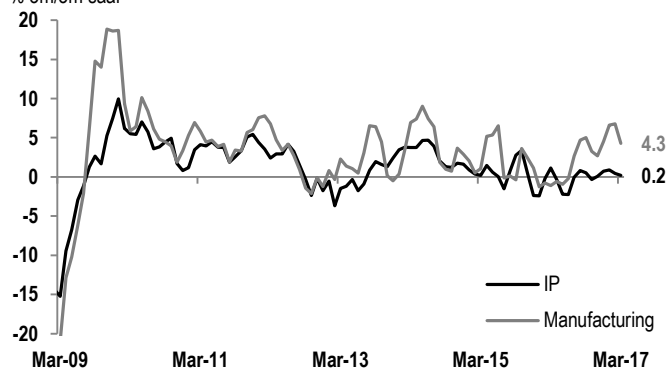
However, manufacturing's growth will be partially offset by the contraction in construction output. As we have mentioned throughout our publications, the fiscal cut that the Federal Government has implemented will affect the construction of public infrastructure projects. In addition, we believe that the uncertainty generated by the impact of Trump's economic policies to the Mexican economy will discourage private construction projects. Moreover, we believe that Mexico's mining industry will continue to fall throughout the first half of the year. All in all, we expect a marginal recovery in industrial production in the second quarter of the year.

Industrial production: March 2017
% m/m sa

	Mar-17	Feb-17	Difference
Total	0.0	-0.1	0.0
Mining	0.1	-1.1	1.2
Utilities	0.5	-0.4	0.8
Construction	-0.2	-0.1	-0.1
Manufacturing	-0.3	-0.1	-0.2

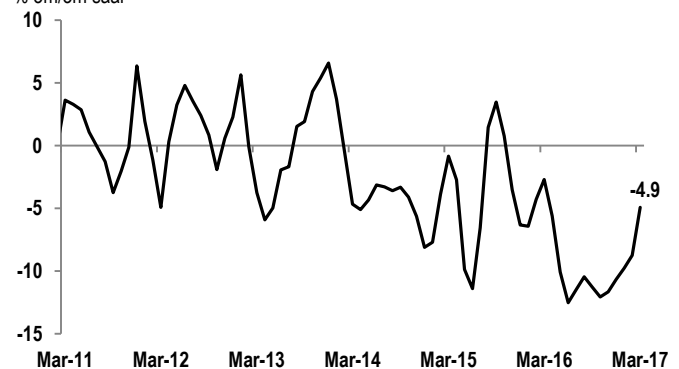
Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Mining output
% 3m/3m saar



Source: Banorte-Ixe; INEGI

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