

Industrial production continues to fall

April 11, 2017

- **Industrial production (February): -1.7% yoy; Banorte-Ixe: -1.3%; consensus: -1.5% (range: -2.9% to 0.2%); previous: -0.1%**
- **The 1.7% contraction in February was explained by the 13.7% contraction in mining activity coupled with the 2.4% reduction in utilities output**
- **However, manufacturing production increased 1.1%**
- **With today's figures, the mining industry now adds 33 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output increased 0.1% m/m**
- **Looking ahead, we expect industrial production to show reduction in the coming months**

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IP posted a 0.1% yoy contraction in February. INEGI just published its IP report for February, where the headline index posted a 1.7% yoy contraction, below our -1.3% forecast (consensus: -1.5% yoy). Taking a look at the breakdown, manufacturing output increased 1.1% yoy. The low growth in the sector was explained by the artificial base of comparison given the leap year effect in 2016. Using calendar adjusted figures, manufacturing output rose 3.3% yoy.

Moreover, construction output rose 1%, as a result of the 1% growth in building projects, whereas public civil engineering construction projects declined 14.9% yoy, given the fiscal cuts implemented by the Federal Government.

However, mining activity fell 13.7% 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 33 consecutive months in contraction. Finally, utilities decreased 2.4%, as shown in the table below.

Industrial production: February 2017

% yoy				
%yoy	Feb-17	Feb-16	Jan-Feb, '17	Jan-Feb, '16
Total	-1.7	2.3	-0.9	1.1
Mining	-13.7	-1.8	-11.7	-2.5
Utilities	-2.4	3.0	-0.7	1.6
Construction	3.0	3.3	1.0	2.8
Manufacturing	1.1	3.5	2.7	1.9
Contribution to growth				
	Feb-17	Feb-16	Difference	
Total	-1.7	2.3	-4.0	
Mining	-2.7	-0.4	-2.3	
Utilities	-0.2	0.2	-0.4	
Construction	0.7	0.7	0.0	
Manufacturing	0.6	1.8	-1.2	

Source: INEGI, Banorte-Ixe

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In seasonally adjusted terms, IP posted a 0.1% m/m expansion. Taking a look at the breakdown, manufacturing output posted a null growth, while construction output increased 0.9% m/m. However, mining activity fell by 1% m/m. With these figures, industrial production posted a 0.8% 3m/3m annualized growth, explained by the 8.8% fall in mining output, despite manufacturing's 7% 3m/3m saar growth (refer to the charts below).

Looking ahead, we expect industrial production to show a marginal fall in the coming months. We continue to believe that Mexico's manufacturing industry will recover in the coming months. We expect that the further depreciation of the Mexican currency, stemming from the results of the US election, will continue to benefit exports in the first 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.

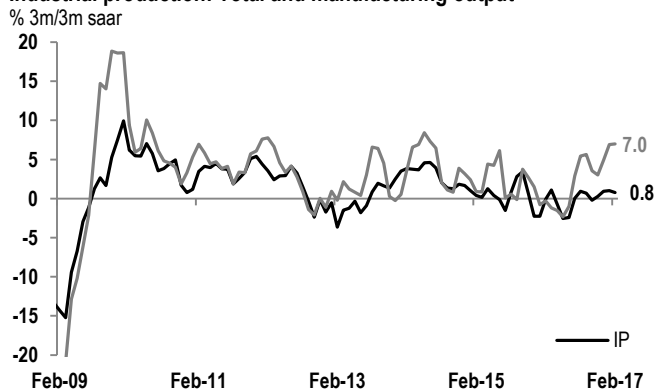
However, manufacturing's growth will be offset by the contraction in construction output. As we have mentioned throughout our publications, the fiscal cut that the Federal Government will implement in 1Q17 will affect the construction of public infrastructure projects. In addition, we believe that the 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 fall in industrial production in the coming months.

Industrial production: February 2017

% m/m sa			
	Feb-17	Jan-17	Difference
Total	0.1	0.1	0.0
Mining	-1.0	1.0	-2.0
Utilities	-1.5	-2.3	0.8
Construction	0.9	0.1	0.8
Manufacturing	0.0	0.5	-0.5

Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output



Source: Banorte-Ixe; INEGI

Mining output



Source: Banorte-Ixe; INEGI

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