

Industrial production – November’s weak performance explained by lower construction and manufacturing output

January 11, 2016

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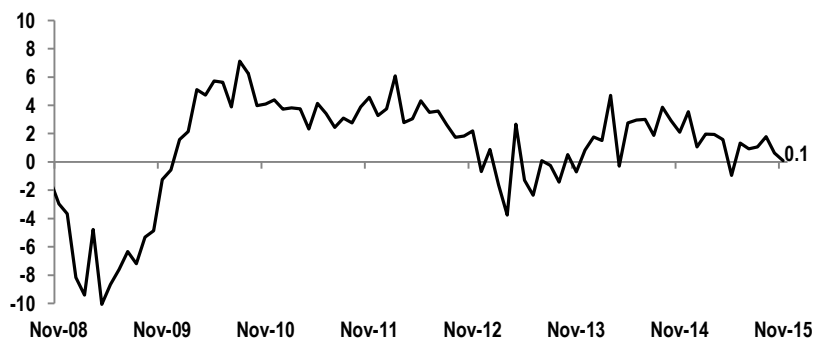
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- **Industrial production (November): 0.1% yoy; Banorte-Ixe: 1.6%; consensus: 1.3% (range: 0.4% to 2.3%); previous: 0.5%**
- **IP’s scant growth was partially explained by the 1.2% yoy reduction in construction output and the moderate 1.8% yoy growth in manufacturing production**
- **Mining activity fell 4.3% yoy, adding 20 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output fell 0.5% m/m**
- **IP posted a 1.2% 3m/3m saar growth, while manufacturing output edged-down to 2.2% from 3.7%**
- **Looking ahead, we expect industrial production to show a moderate recovery**

November’s scant growth explained by the lower construction and manufacturing output. INEGI just published its IP report for November, where the headline index increased a scant 0.1% yoy (consensus: 1.3% yoy; Banorte-Ixe: 1.6%). IP’s growth was partially explained by the 1.8% yoy growth in manufacturing production derived from the significant fall in the production of manufactured goods derived from oil and coal (-6.7% yoy) and the basic metal industries (-5.9% yoy). Moreover, construction output fell 1.2% yoy, given the 4.6% yoy reduction in public civil engineering construction projects given the fiscal cut announced by the federal government. Similarly, mining activity declined 4.3% as a result of the significant contraction in Mexico’s oil production. With today’s report, the mining industry now adds twenty consecutive months in contraction. Finally, utilities edged-up 4.9% yoy, as shown in the table on the following page.

Manufacturing production: November 2015

% yoy



Source: INEGI, Banorte-Ixe

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Industrial production: November 2015

%yoy	Nov-15	Nov-14	Jan-Nov, '15	Jan-Nov, '14
Total	0.1	2.1	1.0	2.5
Mining	-4.3	-5.3	-5.9	-1.1
Utilities	4.9	6.8	4.1	8.2
Construction	-1.2	4.5	2.9	1.5
Manufacturing	1.8	3.7	2.8	3.7

%yoy calendar effect	Nov-15	Nov-14	Jan-Nov, '15	Jan-Nov, '14
Total	-0.1	2.9	1.0	2.5
Mining	-4.3	-5.3	-5.9	-1.1
Utilities	4.9	6.8	4.1	8.2
Construction	-0.9	5.1	3.0	1.6
Manufacturing	1.3	5.2	2.9	3.9

Contribution to growth	Nov-15	Nov-14	Difference
Total	0.1	2.1	-2.0
Mining	-0.9	-1.2	0.3
Utilities	0.3	0.4	-0.1
Construction	-0.3	1.0	-1.3
Manufacturing	0.9	1.8	-0.9

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP decreased 0.5% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.4% m/m. Moreover, construction activity fell 1.4% m/m. With these figures, industrial production is up by a scant 1.2% 3m/3m saar, as shown in the chart below. Moreover, manufacturing production edged down to 2.2% 3m/3m saar from 3.7%.

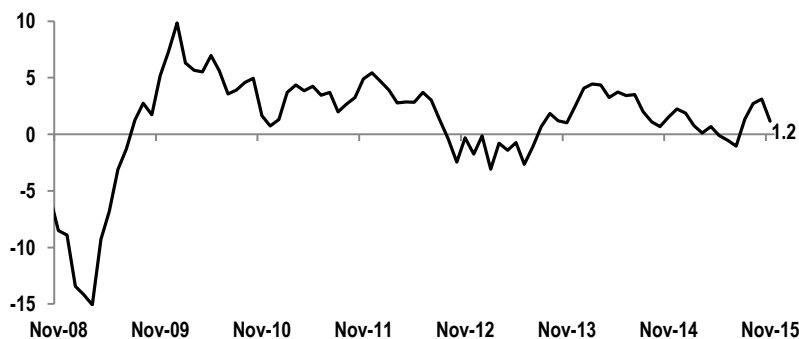
Industrial production: November 2015

%m/m sa	Nov-15	Oct-15	Difference
Total	-0.5	-0.1	-0.4
Mining	-0.5	-0.6	0.1
Utilities	-0.1	0.6	-0.7
Construction	-1.4	-0.3	-1.1
Manufacturing	-0.4	0.3	-0.7

Source: INEGI, Banorte-Ixe

Industrial production

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect a moderate recovery in industrial production.

The deceleration in Mexico's manufacturing output during recent months has been explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Moreover, the manufacturing sub-sectors that hold a strong correlation with commodities prices has also decelerated significantly. In addition, we believe that Mexico's auto-industry will be affected by the recent Volkswagen scandal, given that this firm's production fell 19.9% yoy in November.

Nevertheless, we believe that Mexico's non-vehicle manufacturing industry will strengthen in the first quarter of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a 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 private construction output will continue to recover in the first quarter of the year, given the upward trend in private consumption and investment. However, it is likely that the fiscal cut announced by the Federal Government will subdue Mexico's overall investment growth. Moreover, 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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