

## Industrial production – Higher than expected growth in construction output

July 12, 2017

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- **Industrial production (May): 1% yoy; Banorte-Ixe: 0%; consensus: 0.3% (range: -3% to 1%); previous: 3.4%**
- **The 1% expansion in May was explained by the 0.8% growth in construction output (Banorte-Ixe: -2.4% yoy), whereas manufacturing production increased 5% yoy (Banorte-Ixe: 4.8%)**
- **With today's figures mining activity now adds 36 consecutive months in contraction**
- **In seasonally adjusted terms, industrial production increased 0.1% as a result of the 2.1% m/m gain in construction output**
- **Looking ahead, we expect a marginal recovery of industrial production**

**Higher than expected growth in construction output.** INEGI just published its IP report for May, where the headline index posted a 1% yoy expansion, above our 0% forecast (consensus: 0.3% yoy). The higher than expected growth in industrial production was explained by the 0.8% gain in construction output (Banorte-Ixe: -2.4% yoy), which was explained by the 1.8% growth in building projects, whereas public civil engineering construction projects declined 10% yoy, given the austerity program implemented by the Federal Government.

In addition, manufacturing output increased 5% yoy (Banorte-Ixe: 4.8%). By contrast, mining activity fell 8.3% 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 36 consecutive months in contraction. Finally, utilities decreased 1.9%, as shown in the following table.

### Industrial production: May 2017

% yoy

%	May-17	May-16	Jan-May, '17	Jan-May, '16
Total	1.0	0.4	-0.4	0.4
Mining	-8.3	-4.5	-10.3	-3.5
Utilities	-1.9	6.1	-1.2	2.6
Construction	0.8	2.6	-0.2	2.0
Manufacturing	5.0	0.7	3.5	1.0

Contribution to growth	May-17	May-16	Difference
Total	1.0	0.4	0.6
Mining	-1.6	-0.9	-0.7
Utilities	-0.1	0.4	-0.5
Construction	0.2	0.6	-0.4
Manufacturing	2.6	0.4	2.2

Source: INEGI, Banorte-Ixe

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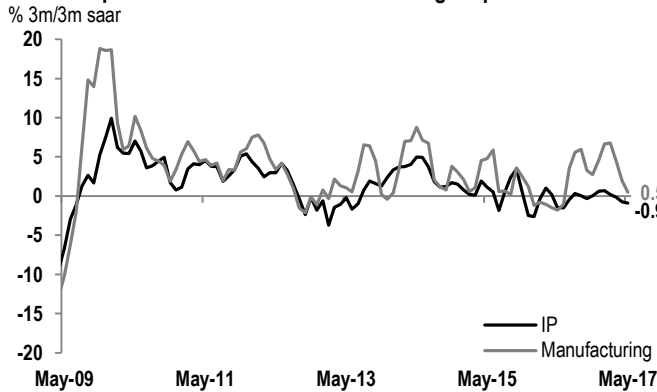
**In seasonally adjusted terms, IP increased 0.1% m/m in May.** Taking a look at the breakdown, manufacturing output posted a 0.3% m/m contraction; however, construction output expanded 2.1% m/m, as a result of the 2.4% increase in building projects, despite the 2.9% m/m fall of public civil engineering construction projects. In addition, mining activity increased 0.2% m/m. With these figures, industrial production posted a 0.9% 3m/3m annualized contraction, explained by the 5.6% fall in mining output. In addition, manufacturing production increased a scant 0.5% 3m/3m saar growth.

**Industrial production: May 2017**

% m/m sa			
	May-17	Apr-17	Difference
Total	0.1	-0.2	0.3
Mining	0.2	-0.9	1.1
Utilities	0.5	-0.2	0.8
Construction	2.1	-2.0	4.2
Manufacturing	-0.3	0.6	-0.9

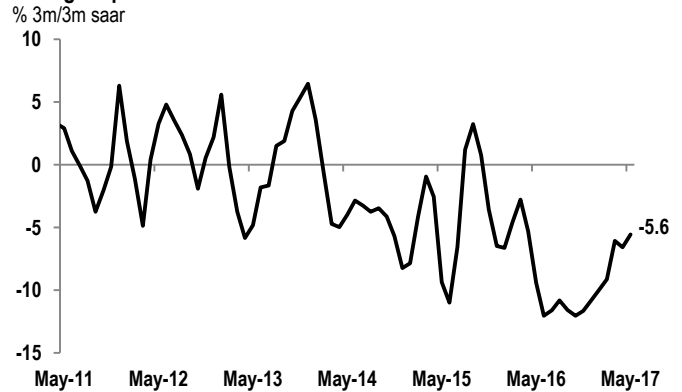
Source: INEGI, Banorte-Ixe

**Industrial production: Total and manufacturing output**



Source: Banorte-Ixe; INEGI

**Mining output**



Source: Banorte-Ixe; INEGI

**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 higher growth of external demand will continue to foster manufacturing production and exports in the second and third 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 austerity program that the Federal Government has implemented will affect 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 year, as a result of Government’s fiscal consolidation plan which has affected Mexico’s drilling projects. All in all, we expect a marginal recovery in industrial production in the second and third quarter of the year.

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