

Industrial production – Rebound in April, but with challenges ahead

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.mactal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Industrial production (April): -2.9% yoy; Banorte: -2.8%; consensus: -2.2% (range of estimates: -4.2% to -0.4%); previous: -0.1%**
- **Adjusting for the *Holy Week* effect, IP declined 0.4% yoy sa, led by a relatively strong rebound in manufacturing which advanced 3.1%**
- **In the monthly comparison, activity rebounded 1.5% m/m. Construction rebounded after a very weak print in March, and manufacturing stayed positive for a fourth consecutive month**
- **Despite of the rebound in April, we believe it is likely that industry will remain limited and with further risks to the downside in a context of higher trade tensions and of greater challenges for global growth**
- **To the latter, we should add other local factors that could keep weighing on the sector, such as the drag in mining and civil engineering construction**

Industrial activity improved in April. Industrial production declined 2.9% yoy in April, below consensus at -2.2% but virtually in line with our forecast of -2.8%. It is worth remembering that the annual comparison was influenced negatively by the timing of the Easter Holiday. Correcting for this, industry fell 0.4% yoy sa, better than the very-weak print of -2.5% yoy sa in the previous month.

By sector and using seasonally-adjusted figures, mining remains pressured at -8.2% yoy, exacerbating its decline for second consecutive month. Contrary to March, the oil-based sector was the main drag at -9.9%, with non-oil improving but still in contraction at -2.4%. Construction declined further at -1.5%, with civil engineering (mostly related to the federal government infrastructure spending) observing the strongest decline at -3.4%.

On a more positive note, manufacturing advanced strongly at 3.1%, its highest expansion since last September. Details were mixed, with 8 out of 21 sectors still negative. Auto production was the main outperformer, with an outsized gain of 16.6%. The food industry, which also has one of the highest weights, was also more positive when compared to the previous month at 1.9%, while computers and communication equipment stayed strong at 10.6%.

Despite this improvement, the cumulative performance in March and April (to neutralize the distortion due to the *Holy Week*) was -1.5% yoy nsa, suggesting that industrial activity remains muted. We believe this situation could linger around at least for the rest of the quarter. In this respect and on a year-to-date basis, industry has contracted 1.2%. In this period, all sectors were weaker with the exception of manufacturing, which accounts for about 50% of total sector activity, but with headwinds coming from the relative moderation in the US along trade tensions around the world.

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Industrial production: April 2019

% yoy, nsa

NSA	Apr-19	Apr-18	Jan-Apr '19	Jan-Apr '18
Total	-2.9	3.7	-1.2	0.3
Mining	-9.0	-4.9	-8.0	-5.5
Utilities	-3.1	5.9	-1.3	1.8
Construction	-4.2	6.6	-1.6	2.9
Manufacturing	-0.4	5.2	1.1	1.0

SA	Apr-19	Apr-18	Mar-19	Mar-18
Total	-0.4	0.0	-2.5	-0.1
Mining	-8.2	-5.9	-6.7	-6.6
Utilities	-1.6	4.2	-0.4	-1.1
Construction	-1.5	3.8	-5.4	-0.1
Manufacturing	3.1	-0.2	-0.6	2.9

Source: INEGI

With seasonally-adjusted figures, activity picked-up 1.5%. This is the highest figure since September 2018. Nevertheless, this happened after the strong decline of 1.2% in the previous month, providing a favorable base-effect. In this sense, construction was the most benefited as it grew 2.2% (previous: -3.0%). Manufacturing added four months in positive territory, accelerating modestly to 0.6% from 0.5% in March. Autos have been one of the brightest spots as the sector added two consecutive months advancing at a brisk pace. On the contrary, mining has reversed the tentative stabilization at the start of the year, with the index at its lowest level since 4Q95 (which actually is an outlier in the historical series).

Industrial production: April 2019

% m/m, sa

	Apr-19	Mar-19	Feb-19
Total	1.5	-1.2	0.2
Mining	-0.6	-1.5	0.5
Utilities	1.6	-1.6	1.1
Construction	2.2	-3.0	-2.2
Manufacturing	0.6	0.5	0.1

Source: INEGI

With these figures, industrial production improved to 0.4% on a 3m/3m saar basis. This result is basically due to the relative resiliency of manufacturing, which is the only sector that actually advanced on this metric. In contrast, construction went to strong negative territory in spite of the rebound observed in April.

Industrial production: April 2019

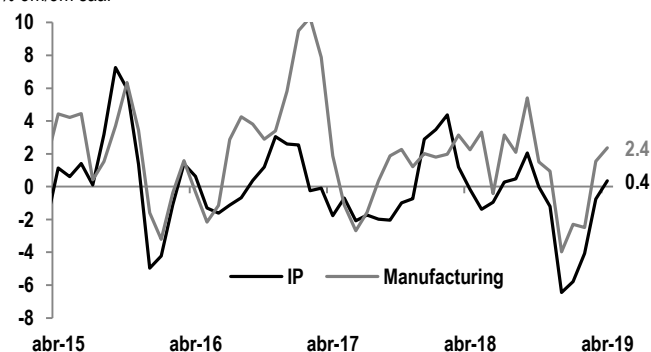
% 3m/3m saar

	Feb-Apr '19	Jan-Mar '19
Total	0.4	-0.7
Mining	-2.8	-3.6
Utilities	-0.4	-4.0
Construction	-3.4	4.4
Manufacturing	2.4	1.6

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Despite April's rebound, industrial is still facing important headwinds. In our view, several local and global factors could keep limiting industrial dynamism, particularly in manufacturing, which so far has been the most resilient subsector. We believe challenges remain high and there is an elevated probability of a further deterioration from here.

Regarding the former, the report does not seem to suggest signs of an impact from delays in freight transportation crossings at the Northern Border, which according to our monitoring took place mostly during April. Nevertheless, we should not discard a lagged effect, as in our view was evident recently with the impact in March due to delays in fuel distribution and railway blockades in the first months of the year. In the latter, not only did the US increase tariffs to China recently but also threatened Mexico with a 5% tariff on all goods, a situation that was averted at the next-to-last minute but may still have a negative effect. In particular, an evaluation period was established as part of the agreement, in which it is not entirely clear which goals should be accomplished and/or the US administration's response to several scenarios. In our view, these may include once again the threat of tariffs. Although most of the likely negative short-term effect has clearly diluted, uncertainty increased and has not been entirely eliminated. Moreover, US manufacturing keeps decelerating, a situation that will likely be unfavorable even before taking into account the environment of increased uncertainty regarding trade.

Last but not least, mining actually exacerbated its recent decline, with both oil- and non-oil in contraction. Despite the rebound in construction, we believe it remains challenged as confidence levels among businesses remains relatively low and there are still not clear signs of a pickup in Federal government expenditures. In this respect, low dynamism is likely to stay at least until the second half of the year.

Considering this environment, today's report helps the case of a sequential rebound in 2Q19, particularly due to the very weak print in the previous quarter. Nevertheless, we anticipate industry to remain weak for the rest of the year, with relevant risks to the downside to our already modest forecast of -0.4% yoy for the whole year.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454