

## Industrial production – Growth below expectations

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- **Industrial production (March): 1.7% yoy; Banorte-Ixe: 2%; consensus: 1.8% (range: 1% to 3%); previous: 1.6%**
- **Manufacturing production increased 3.1% yoy, below consensus and our 3.9% yoy estimate**
- **Construction output expanded 5.2% yoy, while mining activity fell 5.3% yoy**
- **In seasonally adjusted terms, industrial output was unchanged in March, on the back of the 1% m/m decrease in manufacturing production, along with the 3% m/m expansion in construction activity**
- **Mining activity now adds twelve consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

**Manufacturing output showed a lower than expected performance.** *INEGI* just published its IP report for March, where the headline index increased 1.7% yoy. Taking a look at the breakdown, manufacturing output grew 3.1% yoy, below consensus and our 3.9% estimate. Moreover, the construction sector posted a 5.2% yoy expansion. However, mining activity declined 5.3%, adding twelve consecutive months in contraction. Finally, utilities increased 3% yoy, as shown in the following table.

### Industrial production: March 2015

%yoy	Mar-15	Mar-14	Jan-Mar, '15	Jan-Mar, '14
Total	1.7	3.9	1.4	1.9
Mining	-5.3	0.3	-5.0	-0.2
Utilities	3.0	5.3	3.3	2.2
Construction	5.2	-0.2	4.2	-1.6
Manufacturing	3.1	7.3	2.9	4.5

Contribution to growth	Mar-15	Mar-14	Difference
Total	1.7	3.9	-2.3
Mining	-1.2	0.1	-1.2
Utilities	0.2	0.3	-0.1
Construction	1.1	0.0	1.1
Manufacturing	1.6	3.6	-2.0

Source: INEGI, Banorte-Ixe

**In seasonally adjusted terms, IP was unchanged in March.** Manufacturing output edged-down 1% m/m, while construction activity increased 3% over the previous month. Moreover, mining production posted a significant 1.6% m/m decrease. In this regard, we highlight that mining activity is down 1.3% 3m/3m saar in March, as shown in the chart below, still on negative territory but picking up in the past three months.

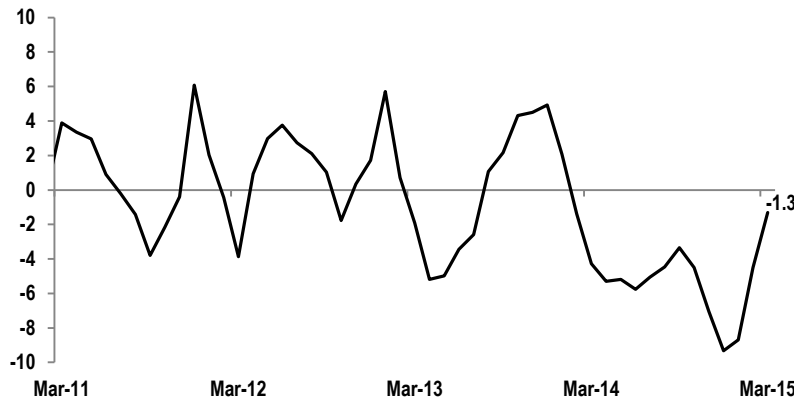
**Industrial production: March 2015**

%m/m sa	Mar-15	Feb-15	Difference
Total	0.0	0.3	-0.3
Mining	-1.6	1.7	-3.2
Utilities	0.0	0.1	-0.1
Construction	3.0	-2.9	5.9
Manufacturing	-1.0	1.0	-2.0

Source: INEGI, Banorte-Ixe

**Mining production**

% 3m/3m saar



Source: Banorte-Ixe; INEGI

**Looking ahead, we expect industrial production to gain additional momentum.** Despite the recent deceleration in manufacturing output, we believe that the recovery of the manufacturing industry is on the way and that will strengthen in the second quarter of the year given: (1) A significant recovery in external demand, particularly from the U.S.; (2) Mexico’s manufacturing exports have shown solid growth rates; (3) the recent and significant depreciation of the Mexican currency which could result in stronger growth dynamics for exports; and (4) the recent Mexican car industry figures remain strong. In this regard, we believe that the recovery of both manufacturing and construction industries will continue in 1H15. However, it is likely that 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 in the first half of this year.

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