

Industrial production adds six consecutive months in contraction

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- **Industrial production (November): -1.5% yoy; Banorte-Ixe: -0.8%; consensus: -1% (range: -2.3% to 0.4%); previous: -1.1%**
- **The 1.5% contraction in November was explained by the 8.5% yoy decline in mining output, coupled with the 5.7% reduction in construction**
- **With today's figures, industrial production adds six consecutive months in contraction**
- **In seasonally adjusted terms, industrial production fell 0.1% m/m given the 1.2% m/m contraction in construction**
- **Looking ahead, we expect a marginal recovery of industrial production during 1Q18 as a result of higher manufacturing output**

Strong decline in mining and construction. *INEGI* just published its IP report for November, where the headline index posted a 1.5% yoy contraction, below our -0.8% forecast (consensus: -1% yoy). The reduction in industrial production was mostly explained by the 8.5% yoy fall in mining output, given the decline in oil production in the Gulf of Mexico.

In addition, construction fell 5.7% yoy, as a result of the 6.6% contraction in building projects, whereas public civil engineering construction projects declined 6.8% yoy, given the austerity program implemented by the Federal Government. By contrast, manufacturing output increased 2.4% yoy. Year-to-date, manufacturing output adds a 3.2% expansion.

In seasonally adjusted terms, IP fell 0.1% m/m. Taking a look at the breakdown, manufacturing output posted a 0.6% m/m expansion. In addition, mining activity increased 0.1% m/m. By contrast, construction output fell 1.2% m/m, as a result of the 0.6% decrease in building projects.

With these figures, industrial production posted a 2.5% 3m/3m annualized contraction, explained by the 19.4% fall in mining output. Moreover, manufacturing production increased a scant 0.1%, whereas construction posted a 3.6% 3m/3m saar reduction (refer to the charts on the third page).

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Looking ahead, we expect a marginal recovery of industrial production. As we have mentioned throughout our publications, manufacturing production growth during the first half of the year was mostly explained by the uncertain trade relation with the US, which fostered a higher flow of exports, hedging a scenario of future tariffs.

In recent months, market participants have discounted a higher probability that the US will exit NAFTA, which has reflected in the behavior of the Mexican currency. In this context, we consider that external demand –particularly from the US– for Mexican manufactured products has increased, following the depreciation of the MXN, which will have a positive impact on Mexican manufacturing production.

In addition, we expect a higher growth in construction output as soon as 1Q18 derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico’s political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico’s mining industry will continue to fall throughout the first half of the year, as a result of Government’s fiscal consolidation plan which has affected Mexico’s drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal recovery of industrial production in the first quarter of 2018.

Industrial production: November 2017

% yoy; %-pts

%yoy	Nov-17	Nov-16	Jan-Nov, '17	Jan-Nov, '16
Total	-1.5	2.4	-0.7	0.5
Mining	-8.5	-7.1	-10.0	-3.7
Utilities	3.1	-1.1	-0.3	0.1
Construction	-5.7	5.4	-1.7	2.3
Manufacturing	2.4	5.0	3.2	1.4
Contribution to growth	Nov-17	Nov-16	Difference	
Total	-1.5	2.4	-3.9	
Mining	-1.5	-1.4	-0.1	
Utilities	0.2	-0.1	0.2	
Construction	-1.4	1.3	-2.7	
Manufacturing	1.3	2.5	-1.3	

Source: INEGI, Banorte-Ixe

Industrial production: November 2017

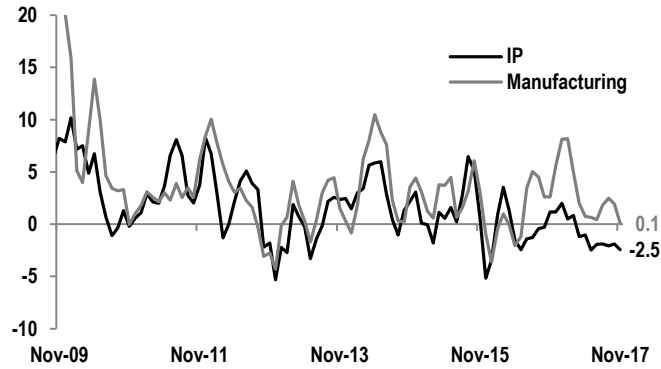
% m/m sa

	Nov-17	Oct-17	Difference
Total	-0.1	-0.1	0.0
Mining	0.1	4.8	-4.8
Utilities	5.7	-3.9	9.5
Construction	-1.2	-0.8	-0.4
Manufacturing	0.6	-0.6	1.2

Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output

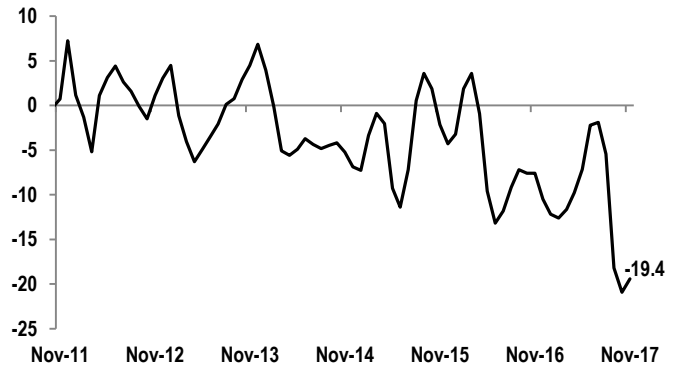
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Mining output

% 3m/3m saar



Source: Banorte-Ixe; INEGI

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