June's Industrial production – Stronger growth explained by a calendar effect

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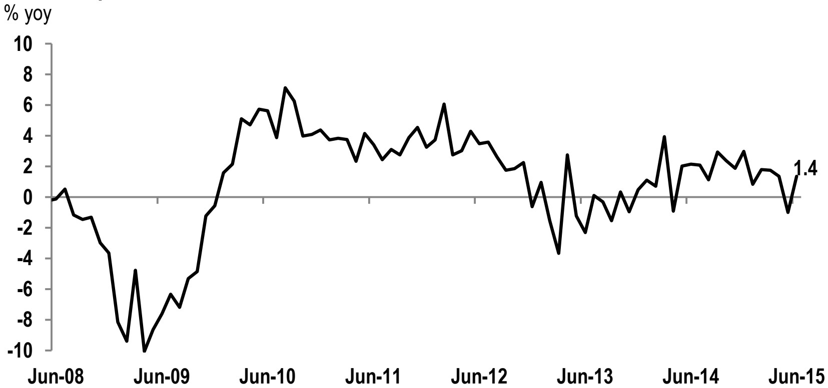
- **Industrial production (June): 1.4% yoy; Banorte-Ixe: 0.6%; consensus: 1.1% (range: 0.5% to 1.9%); previous: -1%**
- **IP's growth was partially explained by a calendar effect, given that Jun'15 had an additional working day than Jun'14**
- **Adjusting by this calendar effect, IP grew a scant 0.6% yoy, in line with our estimate; while manufacturing output increased 2.8% yoy**
- **Construction output expanded 1.3% yoy, while mining activity fell 6.2% yoy (calendar-adjusted figures)**
- **In seasonally adjusted terms, industrial output increased 0.2% m/m, on the back of the 0.1% m/m expansion in manufacturing production, along with the 0.4% m/m growth in construction activity**
- **Mining activity now adds fifteen consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

June's growth explained by a calendar effect. *INEGI* just published its IP report for June, where the headline index increased 1.4% yoy (consensus: 1.1% yoy), above the 1% yoy contraction observed in May. However, IP's growth was partially explained by a calendar effect, given that Jun'15 had an additional working day than Jun'14. Adjusting by this calendar effect, industrial output grew a scant 0.6%, in line with our forecast.

Taking a look at the breakdown, and using the calendar-adjusted figures, manufacturing output grew 2.8% yoy. Moreover, construction output increased 1.3% yoy, while mining activity declined 6.2% as a result of the significant contraction in Mexico's oil production. With today's report, the mining industry now adds fifteen consecutive months in contraction. Finally, utilities edged-up 2.1% yoy, as shown in the table on the following page.

Industrial production: June 2015
% yoy



Source: INEGI, Banorte-Ixe

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Industrial production: June 2015

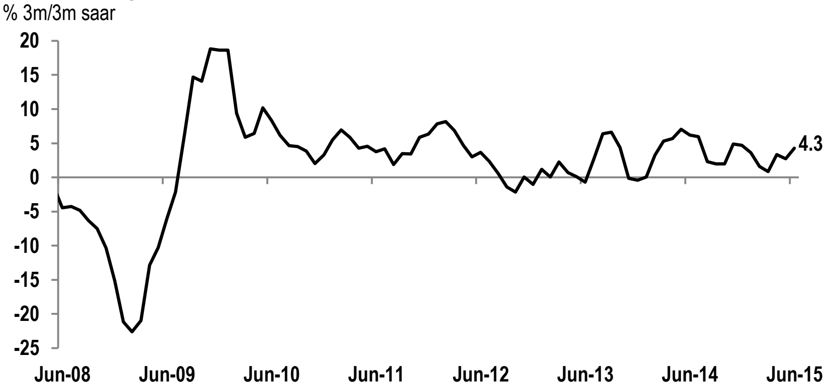
%yoy	Jun-15	Jun-14	Jan-Jun, '15	Jan-Jun, '14
Total	1.4	2.1	1.0	1.5
Mining	-6.2	-1.3	-6.6	-0.6
Utilities	2.1	1.4	2.6	1.9
Construction	2.1	2.3	3.6	-1.1
Manufacturing	4.2	3.7	3.1	3.5
%yoy calendar effect	**Jun-15**	**Jun-14**	**Jan-Jun, '15**	**Jan-Jun, '14**
Total	0.6	1.9	1.0	1.5
Mining	-6.2	-1.3	-6.6	-0.6
Utilities	2.1	1.4	2.6	1.9
Construction	1.3	2.6	3.5	-1.0
Manufacturing	2.8	3.2	3.2	3.6
Contribution to growth	**Jun-15**	**Jun-14**	**Difference**	
Total	1.4	2.1	-0.8	
Mining	-1.3	-0.3	-1.1	
Utilities	0.1	0.1	0.0	
Construction	0.5	0.5	0.0	
Manufacturing	2.1	1.8	0.3	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 0.2% m/m, marginally below our 0.3% forecast. Taking a look at the breakdown, manufacturing output edged-up 0.1% m/m. Moreover, construction activity increased 0.4% over the previous month, while mining production posted a 1.1% m/m expansion. With these figures, manufacturing output is up 4.3% 3m/3m saar in 2Q15, from 0.9% in 1Q15, as shown in the chart below.

Manufacturing production

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect industrial production to gain momentum. Despite the significant deceleration in manufacturing output during May, today's figures reflect the improved performance of the manufacturing sector during the second quarter of the year. Additionally, other indicators show that May's fall was a slight bump in manufacturing's recent upward trend. In particular, Mexico's vehicle production remains strong, while manufacturing exports have shown an upward trend in the first figures of 3Q15. In this regard, we believe that the manufacturing industry will strengthen in the second half of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more 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 eventually translate into a stronger domestic demand for manufactured goods.

We also believe that construction output will continue to recover in the second half of the year, given the recent upward trend in private consumption and investment. 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 third quarter of 2015.

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