Industrial production – January's 1.1% yoy growth explained by higher construction output

March 11, 2016

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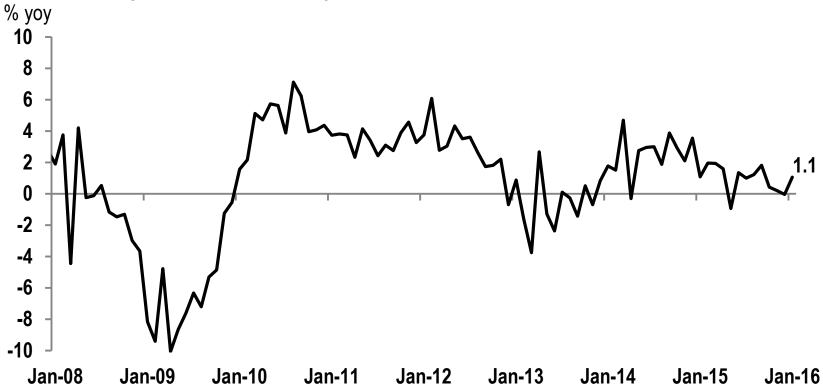
Alejandro Cervantes
Senior Economist, Mexico
Alejandro.cervantes@banorte.com

- **Industrial production (January): 1.1% yoy; Banorte-Ixe: -0.6%; consensus: 0.1% (range: -1.2% to 1%); previous: 0%**
- **IP's growth in January was partially explained by the 4.6% yoy expansion in construction output coupled with a lower-than-expected reduction in mining production**
- **However, manufacturing production increased a scant 1% yoy**
- **In seasonally adjusted terms, industrial output increased 1.2% m/m**
- **IP posted a 0.8% 3m/3m saar contraction, while manufacturing output edged-down to +0.3%**
- **Looking ahead, we expect industrial production to show a marginal recovery in 1Q16**

January's growth explained by higher construction output. *INEGI* just published its IP report for January, where the headline index posted a 1.1% growth (consensus: +0.1% yoy; Banorte-Ixe: -0.6%). IP's better-than-expected performance in January was partially explained by the 4.6% yoy growth in construction output given the 6% hike in building projects, whereas public civil engineering construction projects increased a scant 1.7% yoy as a result of the fiscal cut announced by the federal government and approved in the Fiscal Law for 2016. Similarly, mining activity declined 2.5% as a result of the significant contraction in Mexico's oil production.

Moreover, manufacturing output increased a scant 1% yoy derived from the following factors: (1) The 4.6% yoy growth in food, beverage, and tobacco production; (2) a null growth in motor vehicles and auto-parts industry; (3) a 1.4% hike in the production of electrical equipment, appliance, and component; (4) a 5.8% yoy hike in the fabrication of machinery and equipment; and (5) the 1.9% yoy fall in the production of fuel given the sharp decline in energy prices.

Manufacturing production: January 2016



Source: INEGI, Banorte-Ixe

Industrial production: January 2016

%yoy	Jan-16	Jan-15	2015	2014
Total	1.1	1.1	1.0	2.6
Mining	-2.5	-6.5	-5.8	-1.5
Utilities	1.6	6.7	3.8	8.2
Construction	4.6	6.4	2.5	2.0
Manufacturing	1.0	1.7	2.9	3.9
%yoy calendar effect	**Jan-16**	**Jan-15**	**2015**	**2014**
Total	1.9	1.5	1.0	2.5
Mining	-2.5	-6.5	-5.8	-1.5
Utilities	1.6	6.7	3.8	8.2
Construction	4.9	6.5	2.5	2.0
Manufacturing	2.1	2.9	2.9	3.9
Contribution to growth	**Jan-16**	**Jan-15**	**Difference**	
Total	1.1	1.1	0.0	
Mining	-0.5	-1.5	1.0	
Utilities	0.1	0.4	-0.3	
Construction	1.0	1.3	-0.3	
Manufacturing	0.5	0.9	-0.4	

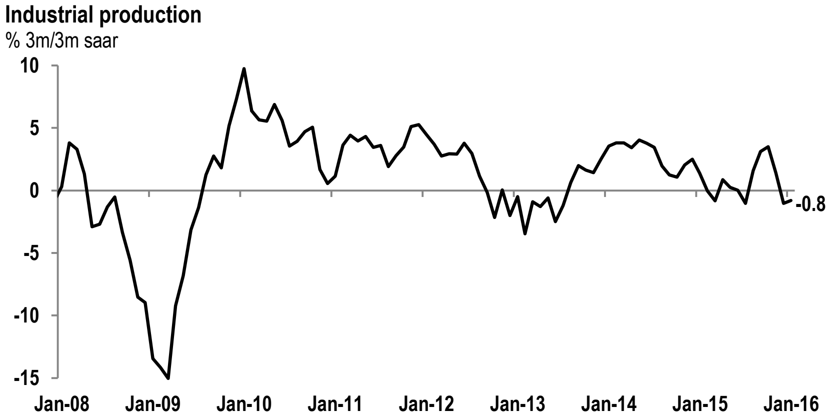
Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 1.2% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.1% m/m. However, construction activity posted a 4% m/m expansion, its highest growth since February 2004. Finally, mining grew 1.4% m/m. With these figures, industrial production is down by -0.8% 3m/3m saar, as shown in the chart below. Moreover, manufacturing production edged-down to +0.3% 3m/3m saar from 1.7% in 4Q15.

Industrial production: January 2016

%m/m sa	Jan-16	Dec-15	Difference
Total	1.2	-0.3	1.5
Mining	1.4	-1.3	2.7
Utilities	-0.5	-0.8	0.3
Construction	4.0	0.9	3.1
Manufacturing	-0.1	0.3	-0.4

Source: INEGI, Banorte-Ixe



Source: Banorte-Ixe; INEGI

Looking ahead, we expect a marginal recovery in industrial production during 1Q16. The deceleration in Mexico's manufacturing output during recent months has been explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Moreover, the manufacturing sub-sectors that hold a strong correlation with commodities prices has also decelerated significantly.

Nevertheless, we believe that Mexico's manufacturing industry will strengthen in the first quarter of the year given: (1) Mexico's manufacturing exports of final goods will show a visible recovery given due to the significant depreciation of the Mexican currency; (2) Mexico's exports of manufacturing intermediate goods will begin to recover given the initial recovery in the U.S. manufacturing industry; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that private construction output will show a marginal recovery in the first quarter of the year, given the upward trend in consumption and the higher supply of banking credit for households and firms. However, it is likely that the fiscal cut recently announced by the Federal Government for 2016 will subdue Mexico's overall investment growth.

BANORTE IXE

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 Godinez	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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Rey Saúl Torres Olivares	Analyst	saul.torres@banorte.com	(55) 1670 - 2957
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
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@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	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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.ceballos@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.roldan.ferrer@banorte.com	(55) 5004 - 1454