

Marginal 0.4% yoy growth in May's industrial production explained by lower manufacturing output

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- **Industrial production (May): 0.4% yoy; Banorte-Ixe: 0.7%; consensus: 1.6% (range: 0.2% to 2.5%); previous: 1.9%**
- **IP's scant expansion in May was explained by the marginal growth in manufacturing output, coupled with the 4.7% contraction in mining activity**
- **Mining activity now adds two consecutive years in contraction.**
- **In seasonally adjusted terms, industrial output increased 0.3% m/m...**
- **...however, IP posted a 2.5% 3m/3m saar contraction, while manufacturing output edged-down to -2.3%**
- **Looking ahead, we expect industrial production to show a marginal recovery**

May's scant growth explained by manufacturing output's marginal growth. INEGI just published its IP report for May, where the headline index posted a 0.4% yoy expansion, below market's 1.6% estimate, but similar to our 0.7% forecast.

Taking a look at the breakdown, manufacturing output increased 0.8% yoy derived from the following factors: (1) A 3.6% yoy contraction in motor vehicles and auto-parts industry, given the recent fall in vehicle exports to the US; (2) a 6.2% expansion in the production of electrical equipment and appliances; (3) the 8.1% contraction in the fabrication of oil-based products and materials; (4) the 2.2% reduction in the production of chemical products; (5) an 8% increase in the production of machinery and equipment; and (6) a 7.2% yoy expansion in the fabrication of computer equipment.

Moreover, construction output increased 2.8%, as a result of the 5% growth in building projects, whereas public civil engineering construction projects declined 8% yoy, given the fiscal cuts implemented by the Federal Government. Moreover, mining activity fell 4.7% as a result of the significant contraction in Mexico's oil production. With today's figure, mining activity now adds two consecutive years in contraction. Finally, utilities increased 6.2%, as shown in the table on the next page.

Industrial production: May 2016

%yoy	May-16	May-15	Jan-May, '16	Jan-May, '15
Total	0.4	-0.9	0.7	1.2
Mining	-4.7	-8.0	-3.5	-6.6
Utilities	6.2	1.9	3.2	4.9
Construction	2.8	1.2	2.5	4.2
Manufacturing	0.8	0.9	1.4	2.9
%yoy adjusted by calendar effect	May-16	May-15	Jan-May, '16	Jan-May, '15
Total	0.2	-0.1	0.4	1.4
Mining	-4.7	-8.0	-4.2	-6.6
Utilities	6.2	1.9	3.2	4.9
Construction	2.9	1.5	2.4	4.3
Manufacturing	0.3	2.1	0.9	3.2
Contribution to growth	May-16	May-15	Difference	
Total	0.4	-0.9	1.4	
Mining	-1.0	-1.8	0.8	
Utilities	0.4	0.1	0.3	
Construction	0.6	0.3	0.3	
Manufacturing	0.4	0.4	-0.1	

Source: INEGI, Banorte-ixe

In seasonally adjusted terms, IP increased 0.3% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.3% m/m. Moreover, construction activity posted a 0.2% m/m expansion, while mining decreased 0.5% m/m. However, with these figures, industrial production is down by -2.5% 3m/3m saar from 1.6% in 1Q16. Moreover, manufacturing production edged-down to -2.3% 3m/3m saar from -0.1% in 1Q16, while construction output posted a 0.8% growth (refer to the charts on the next page).

Looking ahead, we expect a marginal recovery in industrial production.

Today's report shows the significant deceleration in Mexico's manufacturing output, as a result of the slower growth in the US manufacturing sector. Moreover, the manufacturing sub-sectors that hold a strong correlation with commodities prices have also decelerated significantly.

Nevertheless, we continue to believe that Mexico's manufacturing industry will show a marginal recovery given: (1) Manufacturing exports of final goods will continue to show a moderate expansion given the still depreciated Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will continue to translate into a stronger domestic demand for manufactured goods. However, this recovery will be bounded by the significant deceleration in Mexico's vehicle production and exports given the moderate growth in US vehicles imports,

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

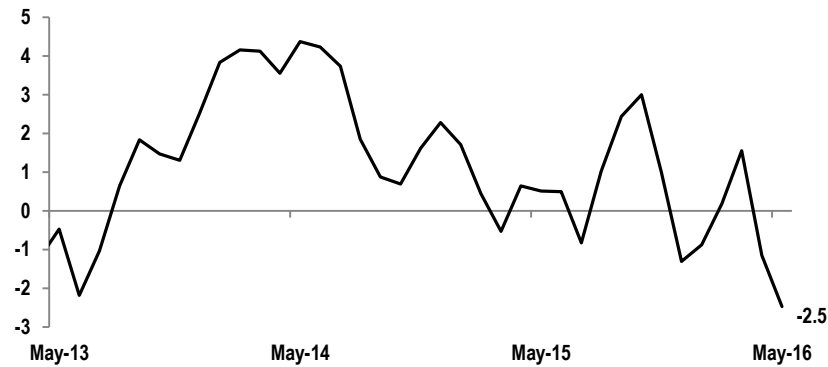
Industrial production: May 2016

%m/m sa	May-16	Apr-16	Difference
Total	0.3	-0.6	0.9
Mining	-0.5	-1.4	0.9
Utilities	1.4	0.7	0.7
Construction	0.2	-0.1	0.3
Manufacturing	0.3	-0.6	0.9

Source: INEGI, Banorte-Ixe

Industrial production

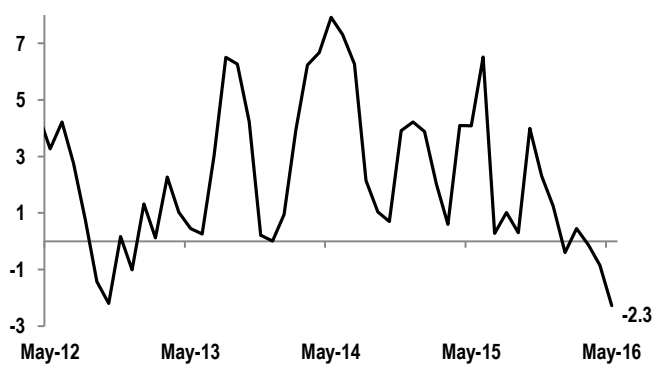
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Manufacturing production

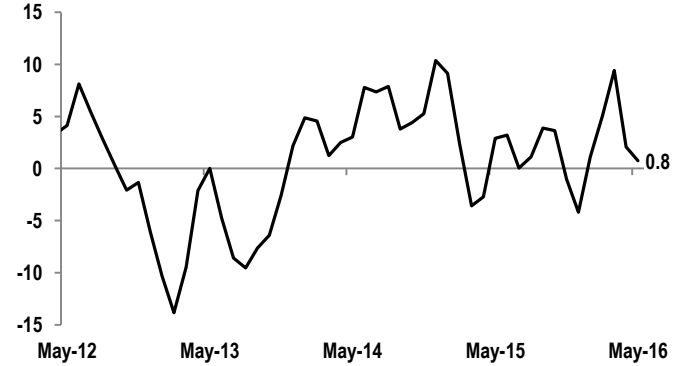
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Construction output

% 3m/3m saar



Source: Banorte-Ixe; INEGI

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