

Industrial activity ended 2018 on a sour note due to weakness in manufacturing

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- **Industrial production (December): -2.5% yoy; Banorte: -1.8%; consensus: -1.6% (range of estimates: -1.9% to 0.3%); previous: -1.2%**
- **December's annual contraction was mainly explained by the significant deceleration in manufacturing (+0.2% from 1.6% in November) coupled with the contraction in the rest of sub-indices**
- **With these results, industrial activity barely grew 0.2% in 2018, still heavily dragged by mining and with a deceleration in manufacturing**
- **In seasonally adjusted terms, IP decreased 0.4% m/m, adding three consecutive months of declines**
- **With this result, the preliminary 4Q18 GDP print at 0.3% q/q will likely be revised lower due to weaker industrial activity and services closely related to manufacturing, such as transportation**
- **We believe industrial production is limited to the upside and will stay weak in 1Q19 due to the deceleration in global manufacturing and trade activity, along the negative effect from disruptions in domestic supply chains**

Strong deceleration in industrial activity at the end of the year. Industrial production fell 2.5% yoy in December, below both our -1.8% forecast and -1.6% of consensus. Among sectors, we highlight the marginal 0.2% increase in manufacturing, considerably below the 1.6% expansion seen in the previous month, weakest during the year with the exception of March which was distorted by the *Holy Week*. Eleven of the twenty-one subsectors stood in contraction territory, highlighting the 8.0% fall in fabrication of metallic goods and 7.1% decline in oil and carbon. We also note the 0.9% fall in the food industry, particularly relevant considering as it makes up around 23% of overall manufacturing. In this context, performance at this level suggests a broad-based deceleration that in our view could extend in coming months.

Construction fell 4.3% due to generalized weakness among its components. In particular, we note the 10.9% in civil engineering projects. We believe part of this deceleration is likely because of the typical effect on this kind of projects due to the start of a new federal administration. In addition, mining contracted 8.4%, with oil and gas extraction fell at the same magnitude. Non-oil mining contracted 3.4%, adding nine consecutive months on the downside, albeit more moderate relative to the -4.8% seen in November.

Industrial production: December 2018

% yoy, nsa

	Dec-18	Dec-17	2018	2017
Total	-2.5	-0.4	0.2	-0.3
Mining	-8.4	-6.7	-5.5	-8.2
Utilities	-1.4	-0.5	2.1	-0.4
Construction	-4.3	3.8	0.6	-0.9
Manufacturing	0.2	-0.3	1.7	2.8

Source: INEGI

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With seasonally-adjusted figures, industrial activity contracted for a third consecutive month. Industrial activity posted a 0.4% m/m decline, in line with our forecast. By sectors, we highlight the 0.7% contraction in manufacturing, with a strong decline in the fabrication of metallic goods (-6.1%), while the food industry posted a moderate 0.4% rebound after the 1.4% contraction of the previous month. Moreover, construction posted a slight 0.6% increase given better dynamism in edification (+2.0%), while civil engineering projects remain a drag (-2.3%). Finally, mining continued its downward trend by falling 0.8%, its fourth consecutive monthly decline.

Industrial production: December 2018

% m/m, sa

	Dec-18	Nov-18	Oct-18
Total	-0.4	-0.6	-1.7
Mining	-0.8	-1.7	-2.3
Utilities	-3.8	1.2	-1.9
Construction	0.6	-1.9	-0.1
Manufacturing	-0.7	0.6	-2.2

Source: INEGI

With these figures, industrial production plunged to a very weak 6.5% 3m/3m saar, deteriorating for a third month in a row. Moreover, manufacturing fell into contraction territory at -3.8% from 1.3% in the previous month, reaching its lowest since December 2012. Construction and mining furthered their fall standing at -5.9% and -13.9%, respectively. In this regard, short-term dynamics in all subsectors were heavily deteriorated, even surpassing our expectation about a deceleration in the sector at the end of 2018.

Industrial production: December 2018

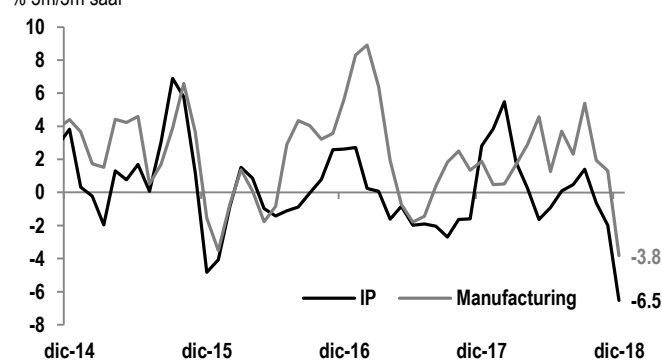
% 3m/3m saar

	Oct-Dec '18	Sep-Nov '18-18
Total	-6.5	-2.0
Mining	-13.9	-9.4
Utilities	-8.0	-0.7
Construction	-5.9	-4.9
Manufacturing	-3.8	1.3

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Industrial activity confirmed weakness could extend to 1Q19. Considering the strong deceleration at the turn of the year, along a more challenging global and local backdrop, we expect secondary activities to remain limited to the upside in coming months. Regarding the former, weaker global economic growth has been centered on manufacturing, with less dynamism not only in the US –that has held up relatively strong- but also in other important regions such as the Eurozone and China. Trade uncertainty remains elevated, with markets focused on current negotiations between China and the US, which in case of no agreement could result in another round of tariffs by March 1st. Although this is not our base-case, high uncertainty could continue impacting global manufacturing activity.

Going to the domestic front, we anticipate a modest but negative impact from the recent railway blockades in several states of the country, which according to several business chambers has already been felt negatively as it has disrupted domestic supply chains. Adding to the latter, delays in fuel distribution have also impacted this sector (for details, see: “*Limited impact on GDP from fuel shortage*”, published on January 25th [<pdf>](#)).

On the contrary, other indicators have not shown an extension of December’s decline in manufacturing, such as business confidence and both the January IMEF manufacturing index and US ISM. Although we believe that industrial activity is very likely to remain weak at the start of 2019, domestic demand conditions have stayed strong, particularly in terms of consumption growth, which should help establish a floor in terms of the performance of industry performance after these transitory shocks fade away.

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