

Industrial production – Weakness in March that could extend in coming months

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- **Industrial production (March): -0.1% yoy; Banorte: -0.1%; consensus: -0.3% (range of estimates: -0.6% to 1.7%); previous: -1.0%**
- **It is worth remembering that the annual comparison was influenced by the timing of the Easter Holiday. Correcting for this, industrial production fell 2.6% yoy sa, weakest since November 2009**
- **This decline was explained by all sectors, highlighting mining (-6.7% yoy sa) and construction (-5.8%)**
- **In the monthly comparison, IP contracted 1.3% m/m, with only manufacturing advancing 0.3%**
- **Overall, results were negative, although slightly better when compared to the implied fall of 0.4% yoy nsa according to the preliminary estimate of 1Q19 GDP**
- **We maintain our view that industrial production will remain weak in coming months, with both local and global factors weighing on dynamism, particularly in the manufacturing sector**

Industrial activity extends its weakness in March. Industrial production fell 0.1% yoy in March, a bit stronger than consensus at -0.3% and in line with our forecast. It is worth remembering that the annual comparison was influenced by the timing of the Easter Holiday, which this year added labor days to the annual comparison. Correcting for this, industrial production fell 2.6% yoy sa, weakest print since November 2009 in the late stages of the financial crisis. Taking a look at the breakdown and using seasonally-adjusted figures, we highlight the contraction of 6.7% yoy in mining. Nevertheless, it is surprising that the latter was concentrated in non-oil, which fell 8.9%. On the other hand, oil and gas production moderated its pace of decline relative to recent months as it stood at -6.9%. Construction stood at -5.8% as a result of the 9.3% contraction in civil engineering. In this respect, infrastructure spending by the Federal Government plunged 58.6% in real terms, in our view driving weakness in this component. Edification was also weak at -3.7%.

Last but not least, manufacturing were also modest, in line with the signal sent by the trade balance report. In particular, the sector stood at -0.7%, with 19 out of the 21 subsectors in negative territory. We note the decline in oil and carbon goods (-9.4%), metallic products (-8.8%), furniture (-11.6%) and autos (-0.3%). On the other hand, the only ones that advanced were food industries (1.1%) and computer and communications equipment (11.9%).

Broadly speaking, performance during the month was very weak, even surpassing last December which had been one of the most negative in recent history. Moreover, it is our take that industrial activity will remain challenged in coming months, with some negative factors weighing on growth such as delays in freight transportation at the Northern Border, which could have an impact in particular on the manufacturing sector.

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Industrial production: March 2019

% yoy, nsa

NSA	Mar-19	Mar-18	Jan-Mar '19	Jan-Mar '18
Total	-0.1	-3.8	-0.7	-0.8
Mining	-6.0	-7.7	-7.6	-5.7
Utilities	0.9	-3.0	-0.7	0.5
Construction	-2.9	-3.8	-0.8	1.7
Manufacturing	2.8	-2.6	1.6	-0.4

SA	Mar-19	Mar-18	Jan-Mar '19	Jan-Mar '18
Total	-2.6	0.0	--	--
Mining	-6.7	-6.6	--	--
Utilities	-0.5	-1.1	--	--
Construction	-5.8	0.0	--	--
Manufacturing	-0.7	2.9	--	--

Source: INEGI

With seasonally-adjusted figures, activity fell 1.3%. Three out of the four main sectors were negative, with only manufacturing up by 0.3% In spite of the latter, results were weak, with only 5 components increasing, highlighting the auto sector (+1.8%). On the contrary, the strongest decline was in oil and carbon goods (-6.2%). In the other subsectors, construction was the most impacted at -3.4%, both because of civil engineering (-4.0%) and edification (-3.3%). Finally, mining declined 1.5% in spite of a 0.3% pickup in oil and gas.

Industrial production: March 2019

% m/m, sa

	Mar-19	Feb-19	Jan-19
Total	-1.3	0.4	0.5
Mining	-1.5	0.6	0.4
Utilities	-1.7	1.1	0.8
Construction	-3.4	-2.0	3.8
Manufacturing	0.3	0.0	0.3

Source: INEGI

With these figures, industrial production improved to -1.0% on a 3m/3m saar basis from -4.4% in the previous month. Nevertheless, this is mostly due to severe weakness in December which shifted to the previous period with this print. In this respect, activity is still weak even if this metric improved at the margin.

Industrial production: March 2019

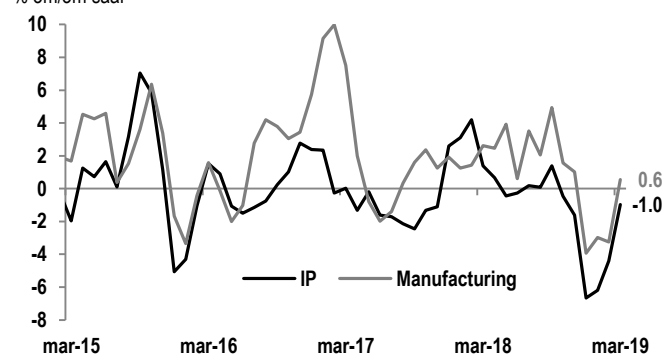
% 3m/3m saar

	Jan-Mar '19	Dec '18 – Feb '19
Total	-1.0	-4.4
Mining	-3.3	-8.9
Utilities	-4.2	-10.0
Construction	4.3	4.8
Manufacturing	0.6	-3.3

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

We maintain our view that industrial activity could remain weak in coming months. In our view, several local and global factors could keep weighing in activity at least in 2Q19, particularly to the manufacturing sector. Regarding the former, our most relevant concern is the delays in freight transportation crossing at the Northern Border as a result of policy changes in the US on immigration, which according to several news outlets have already impacted activity in a meaningful way. In this respect, it is worth remembering that the first reports were around March 29th, which extended at least till the end of April according to our monitoring. Regarding the latter, negative news about trade flows hit the wires today, with the US increasing once again tariffs to Chinese products from 10% to 25% on around US\$ 200 billion of goods. Although the effect to Mexico is uncertain given that China is our competitor in the US imports market, we believe the net effect is likely to be negative given its potential impact in terms of global growth. Additionally, we cannot discard that China retaliates to these measures, which in our view would increase uncertainty and volatility further. We should also remember that the FX rate has been stable to stronger year-to-date, a situation that coupled with lower levels of local activity could also limit a strong rebound.

On the other hand, we keep thinking that mining will subtract dynamism, even if there are some signs that crude oil production could be stabilizing. Last but not least, today's report suggest that the rebound in construction in January was temporary, albeit we do not discard a better performance in the second half of the year driven by the normalization in the pace of expenditures by the Federal government.

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