

Industrial production – Recovery in manufacturing output

May 11, 2018

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Francisco Flores
Economist, Mexico
frnacisco.flores.serrano@banorte.com

- **Industrial production (March): -3.7% yoy; Banorte: -4.5%; consensus: -3.9% (range: -4.8% to -0.2%); previous: 0.7%**
- **We highlight that IP in March was affected by a seasonal effect which reduced working days in the annual comparison. In seasonally adjusted terms, IP expanded 0% yoy.**
- **The null advance in March was explained by the 3.4% yoy growth in manufacturing production, coupled with the 6.5% yoy fall in mining output**
- **Looking ahead, we expect a marginal recovery of industrial production during the first half of the year**

Recovery in manufacturing output. INEGI just published its IP report for March, where the headline index posted a 3.7% yoy contraction (non-seasonally adjusted figures), above our -4.5% forecast (consensus: -3.9% yoy). However, we highlight that IP in March was affected by a seasonal effect which reduced working days in the annual comparison. In seasonally adjusted terms, IP expanded 0% yoy.

The null expansion in industrial production during March was mostly explained by the 3.4% yoy increase in manufacturing output, as a result of a 7.3% increase in the production of transportation equipment, as well as a 3.8% expansion in machinery and equipment. However, these were partially offset by the 33.4% yoy decline in the fabrication of oil and carbon-based products.

Construction output expanded 0.1% yoy as a result of the 0.8% increase in building projects, and a 7.9% expansion in specialized work for construction. However, civil engineering construction projects declined 8.3% yoy. By contrast, mining output edged-down 6.5% yoy, given the 8.7% reduction in oil and gas production.

In the monthly comparison IP also posted a null growth. Taking a look at the breakdown, manufacturing output increased 2.1% m/m. In addition, construction output decreased 0.7% m/m, as a result of the 3.2% contraction in building projects. Moreover, mining activity posted a 1.5% m/m reduction.

With these figures, industrial production posted a 3.3% 3m/3m annualized growth, explained by the 12.8% 3m/3m saar expansion in construction. Moreover, mining output posted a 0.4% contraction, while manufacturing output increased a 3.2% 3m/3m saar (refer to the charts on the third page).

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Looking ahead, we expect a marginal recovery of industrial production. We believe that Mexican manufacturing production will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the presidential elections that will take place in our country on the 1st of July will probably reflect in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

In addition, we expect that the higher growth in construction output will continue throughout the second quarter derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico's mining industry will continue to fall throughout the first half of the year (% yoy, nsa). All in all, we expect that the positive effects coming from the higher public construction output will overcompensate the negative impact of a lower mining activity. As a result, we expect a marginal recovery of industrial production in the first half of 2018.

Industrial production: March 2018

% yoy (nsa); % yoy (sa)

%yoy (nsa)	Mar-18	Mar-17	Jan-Mar, '18	Jan-Mar, '17
Total	-3.7	3.9	-0.8	0.6
Mining	-7.5	-10.3	-6.1	-11.4
Utilities	-4.4	2.5	0.0	0.8
Construction	-3.9	5.1	1.5	1.8
Manufacturing	-2.4	9.1	-0.2	4.8
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% yoy (sa)				
Total	0.0	0.1	0.0	-0.2
Mining	-6.5	-11.0	-5.8	-10.8
Utilities	-8.7	-9.4	0.5	0.6
Construction	5.2	-1.0	2.2	-0.2
Manufacturing	-13.5	-39.9	1.3	3.6

Source: INEGI, Banorte

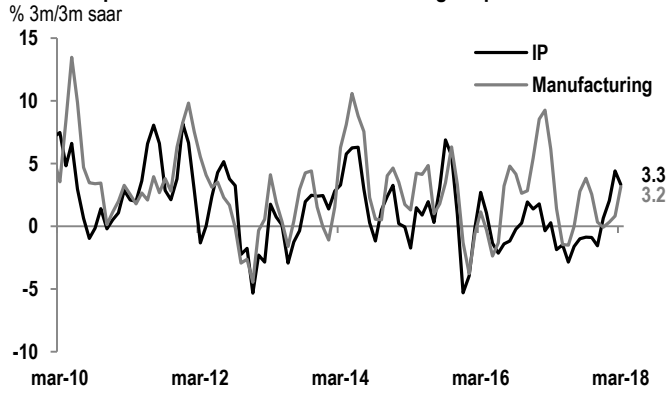
Industrial production: March 2018

% m/m sa

	Mar-18	Feb -18	Difference
Total	0.0	0.4	-0.4
Mining	-1.5	-2.1	0.7
Utilities	-4.3	1.3	-5.5
Construction	-0.7	0.5	-1.2
Manufacturing	2.1	0.9	1.2

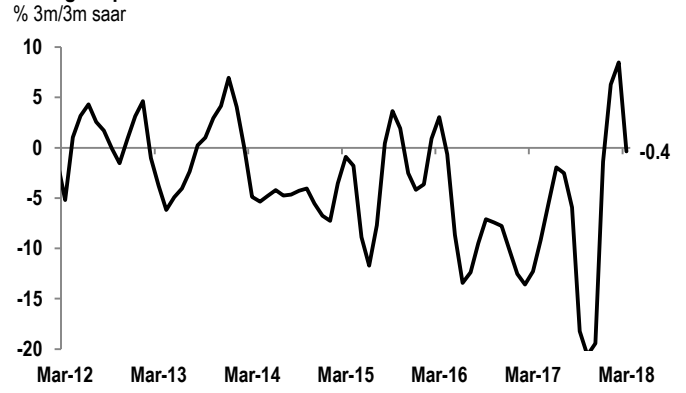
Source: INEGI, Banorte

Industrial production: Total and manufacturing output



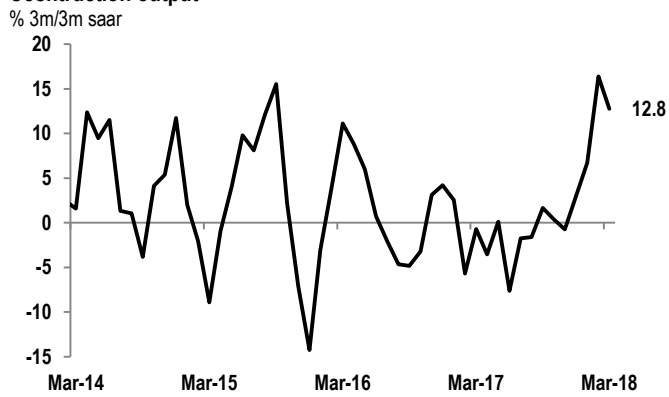
Source: Banorte; INEGI

Mining output



Source: Banorte; INEGI

Construction output



Source: INEGI, Banorte

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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 Godínez	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
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@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 Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist 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	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@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	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@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.cebillos@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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454