

Industrial production – December’s contraction explained by the unexpected reduction in manufacturing production

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- **Industrial production (December): -0.7% yoy; Banorte: -0.2%; consensus: -0.8% (range: -2.5% to 0.6%); previous: -1.5%**
- **Year-to-date, industrial production posted a 0.6% yoy contraction in 2017, below the 0.4% expansion in 2016**
- **The 0.7% yoy contraction in December was explained by the 7.7% yoy decline in mining output, coupled with the unexpected 0.1% reduction in manufacturing production (Banorte: +2.2%; consensus: +2.2%)**
- **With today’s figures, industrial production adds four consecutive months in contraction**
- **In seasonally adjusted terms, industrial production increased 0.9% m/m given the 3.7% m/m expansion in construction**
- **Looking ahead, we expect a marginal recovery of industrial production during 1Q18 as a result of higher manufacturing output**

Strong decline in mining and manufacturing output. *INEGI* just published its IP report for December, where the headline index posted a 0.7% yoy contraction, below our -0.2% forecast (consensus: -0.8% yoy). We highlight that with today’s figure industrial production fell 0.6% in 2017, and adds four consecutive months in contraction.

The reduction in industrial production during December was mostly explained by the 7.7% yoy fall in mining output, given the decline in oil production in the Gulf of Mexico. In addition, manufacturing output fell 0.1% yoy, as a result of a contraction in 12 of its 21 sub-indices. In particular, we highlight the 21.2% yoy reduction in vehicle production. However, year-to-date, manufacturing output increased 2.9% in 2017.

By contrast, construction increased 3.6% yoy in December, as a result of the 7.5% expansion in building projects, whereas public civil engineering construction projects declined 5.5% yoy, given the austerity program implemented by the Federal Government.

In seasonally adjusted terms, IP increased 0.9% m/m. Taking a look at the breakdown, manufacturing output posted a scant 0.1% m/m expansion. In addition, mining activity posted a 0.5% m/m contraction. By contrast, construction output increased a significant 3.7% m/m, as a result of the 4.4% growth in building projects.

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With these figures, industrial production posted a scant 0.2% 3m/3m annualized growth, explained by the 2.2% fall in mining output. Moreover, manufacturing production decreased 0.3%, whereas construction posted a 2.6% 3m/3m saar expansion (refer to the charts on the third page).

Looking ahead, we expect a marginal recovery of industrial production. As we have mentioned throughout our publications, manufacturing production growth during the first half of the year was mostly explained by the uncertain trade relation with the US, which fostered a higher flow of exports, hedging a scenario of future tariffs.

In recent months, market participants have discounted a higher probability that the US will exit NAFTA, which has reflected in the volatility of the Mexican currency. In this context, we consider that external demand –particularly from the US– for Mexican manufactured products has increased, following the depreciation of the MXN, which will have a positive impact on Mexican manufacturing production.

In addition, we expect a higher growth in construction output as soon as 1Q18 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, as a result of Government’s fiscal consolidation plan which has affected Mexico’s drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal recovery of industrial production in the first quarter of 2018.

Industrial production: December 2017

% yoy; %-pts

%yoy	Dec-17	Dec-16	2017	2016
Total	-0.7	-0.3	-0.6	0.4
Mining	-7.7	-8.4	-9.8	-4.1
Utilities	-1.6	0.1	-0.2	0.1
Construction	3.6	-1.0	-1.0	2.0
Manufacturing	-0.1	3.3	2.9	1.5
Contribution to growth	Dec-17	Dec-16	Difference	
Total	-0.7	-0.3	-0.4	
Mining	-1.4	-1.7	0.3	
Utilities	-0.1	0.0	-0.1	
Construction	0.9	-0.2	1.2	
Manufacturing	-0.1	1.6	-1.7	

Source: INEGI, Banorte

Industrial production: December 2017

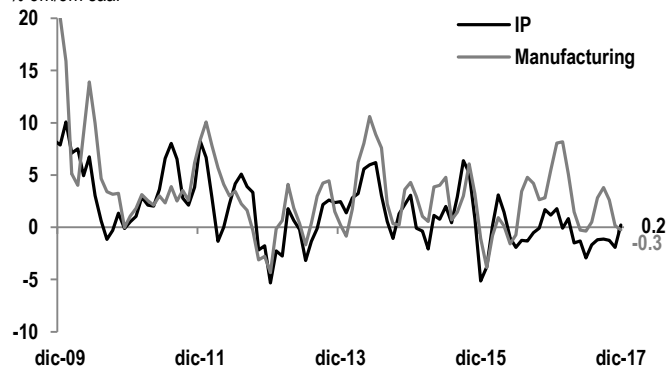
% m/m sa

%m/m sa	Dec-17	Nov-17	Difference
Total	0.9	-0.1	1.0
Mining	-0.5	0.0	-0.5
Utilities	-4.0	5.8	-9.9
Construction	3.7	-1.1	4.8
Manufacturing	0.1	0.6	-0.5

Source: INEGI, Banorte

Industrial production: Total and manufacturing output

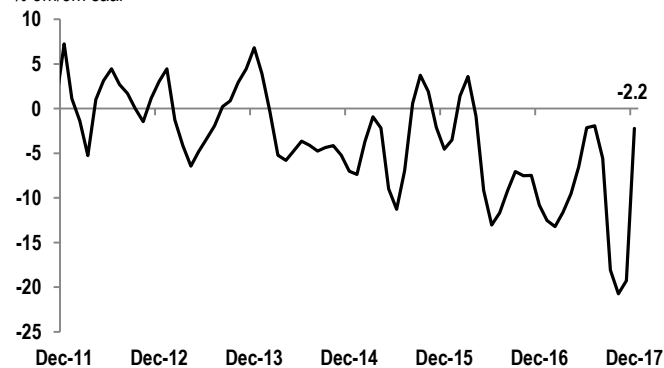
% 3m/3m saar



Source: Banorte; INEGI

Mining output

% 3m/3m saar



Source: Banorte; INEGI

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