

May's Industrial production – This is a low... but it won't hurt you

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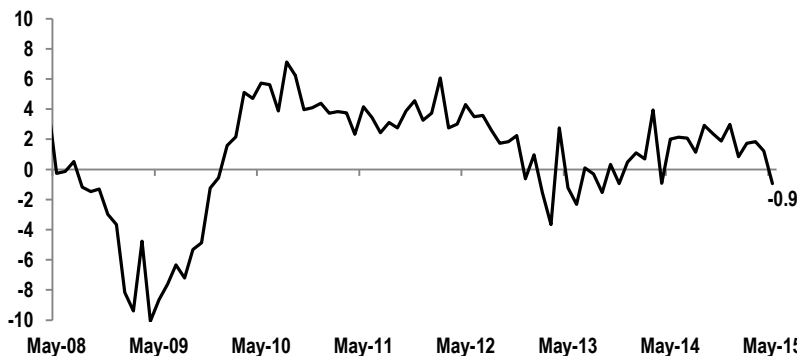
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- **Industrial production (May): -0.9% yoy; Banorte-Ixe: -0.1%; consensus: 0.5% (range: -1.5% to 1.2%); previous: 1.2%**
- **Manufacturing production increased a scant 0.8% yoy, in line with our 0.9% yoy estimate**
- **The deceleration in manufacturing output was mainly explained by a lower vehicle production and a calendar effect**
- **Construction output expanded 1.6% yoy, while mining activity fell 8% yoy**
- **In seasonally adjusted terms, industrial output fell 0.4% m/m, on the back of the 0.9% m/m contraction in manufacturing production, along with the -1.5% m/m reduction in construction activity**
- **Mining activity now adds fourteen consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

Significant deceleration in manufacturing output. INEGI just published its IP report for May, where the headline index decreased 0.9% yoy (Banorte-Ixe: -0.1% yoy; consensus: 0.5% yoy), its lowest rate since April 2014. Taking a look at the breakdown, manufacturing output grew 0.8% yoy, in line with our 0.9% yoy estimate, on the back of a lower vehicle production and the deceleration in manufacturing exports. Part of the moderate growth in the manufacturing sector is explained by a calendar effect, adjusting for this effect output expanded 1.9%. Moreover, mining activity declined 8%, as a result of the significant contraction in Mexico's oil production. With today's report, the mining industry now adds fourteen consecutive months in contraction. However, construction output posted a 1.6% yoy expansion (1.9% yoy adjusted by calendar effect), while utilities increased 1.2% yoy, as shown in the table on the following page.

Industrial production: May 2015

% yoy



Source: INEGI, Banorte-Ixe

Industrial production: May 2015

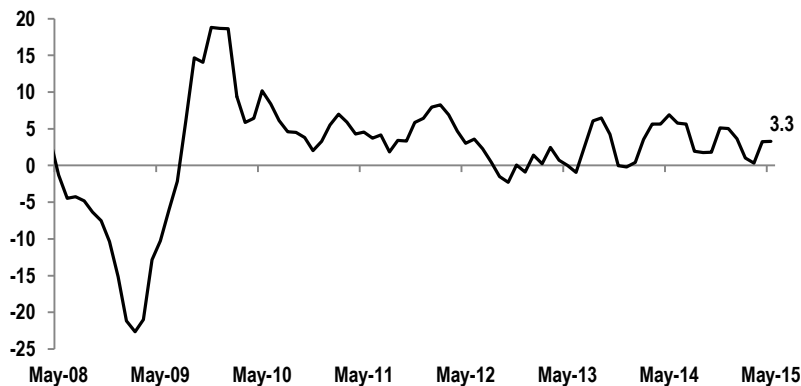
| % yoy | May-15 | May-14 | Jan-May, '15 | Jan-May, '14 |
|------------------------|--------|--------|--------------|--------------|
| Total | -0.9 | 2.0 | 0.9 | 1.4 |
| Mining | -8.0 | -0.2 | -6.3 | -0.5 |
| Utilities | 1.2 | 1.2 | 2.6 | 2.0 |
| Construction | 1.6 | -0.3 | 3.9 | -1.8 |
| Manufacturing | 0.8 | 4.1 | 2.7 | 3.5 |
| % yoy calendar effect | May-15 | May-14 | Jan-May, '15 | Jan-May, '14 |
| Total | -0.1 | 2.5 | 1.1 | 1.4 |
| Mining | -8.0 | -0.2 | -6.3 | -0.5 |
| Utilities | 1.2 | 1.2 | 2.6 | 2.0 |
| Construction | 1.9 | -0.2 | 4.0 | -1.7 |
| Manufacturing | 1.9 | 5.3 | 3.1 | 3.7 |
| Contribution to growth | May-15 | May-14 | Difference | |
| Total | -0.9 | 2.0 | -2.9 | |
| Mining | -1.8 | 0.0 | -1.7 | |
| Utilities | 0.1 | 0.1 | 0.0 | |
| Construction | 0.3 | -0.1 | 0.4 | |
| Manufacturing | 0.4 | 2.1 | -1.6 | |

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP fell 0.4% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.9% m/m. As we mentioned earlier, the fall in manufacturing output was explained mainly by the 3.6% m/m contraction in vehicle production, along with a 0.2% m/m reduction in U.S. manufacturing output, and a 6.6% m/m fall in manufacturing exports. Moreover, construction activity decreased 1.5% over the previous month, while mining production posted a 0.7% m/m expansion. With these figures, manufacturing output is up 3.3% 3m/3m saar in May, from 0.3% in 1Q15, as shown in the chart below.

Manufacturing production

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect industrial production to gain momentum. Despite the significant deceleration in manufacturing output, other indicators show that May's fall was a slight bump in its recent upward trend. In particular *AMIA*'s latest report shows that Mexico's vehicle production expanded 6.7%yoy (0.5% m/m) in June. In this regard, we believe that the manufacturing industry will strengthen in the second half of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the recent Mexican car industry figures remain strong.

We also believe that construction output will continue to recover in the second half of the year, given the recent upward trend in private consumption and investment. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico's oil production– will continue limiting the recovery of industrial activity in the third quarter of 2015.

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