

Industrial production - Rebound in January after three months in contraction

March 13, 2019

www.banorte.com
@ analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.mactal@banorte.com

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

- **Industrial production (January): -0.9% yoy; Banorte: -2.4%; consensus: -2.0% (range of estimates: -3.3% to -0.8%); previous: -2.5%**
- **January's annual contraction was explained by the significant decline in mining (-10.5% yoy), moderated by the pickup in construction (1.7%) and manufacturing (1.3%)**
- **In seasonally adjusted terms, IP grew 0.6% m/m after three consecutive months declining, with all sectors exhibiting positive growth**
- **Overall, the results are favorable considering that growth was positive, particularly in the manufacturing sector, despite of supply chain disruptions experienced during the period**
- **We believe industrial production remains limited to the upside on higher local uncertainty that impacted business confidence, along the relative deceleration in manufacturing and trade globally**

Industrial activity above expectations in January. Industrial production fell 0.9% yoy in January, stronger than both our forecast (-2.4%) and consensus (-2.0%). This was mainly explained by mining, which fell 10.5%, its highest contraction since September 2017 when production was impacted by natural disasters. This was due to the strong 15.1% decline in oil and gas as its production stood at its lowest in at least 30 years. In addition non-oil also extended its decline for a tenth consecutive month. In contrast, construction rebounded 1.7% after two months on the downside. In particular, we noted the increase of 2.5% in civil engineering projects after plunging 10.9% in the December, which came as a surprise as we believed weakness could extend given that these typically lag at the start of a new federal administration.

Manufacturing grew 1.3%, accelerating relative to the 0.2% expansion seen in December. Nine out of twenty-one subsectors contracted, among which we highlight the fabrication of oil and carbon (-18.3%). In contrast, a relatively stronger performance was observed in fabrication of machinery and equipment (+6.8%) and transportation (5.8%).

Overall, performance was favorable considering supply chain disruptions during the month, which in our view would likely have a more sizable impact. Although some negative effect from this cannot be discarded in February figures, the modest rebound of industrial activity in the first month of the year is positive and consistent with figures in the US that also showed better dynamics.

Industrial production: January 2019
% yoy, nsa

	Jan-19	Jan-18	2018	2017
Total	-0.9	0.8	0.2	-0.3
Mining	-10.5	-3.9	-5.5	-8.2
Utilities	-1.5	1.1	2.1	-0.4
Construction	1.7	4.6	0.6	-0.9
Manufacturing	1.3	0.9	1.7	2.8

Source: INEGI

Document for distribution among public

With seasonally-adjusted figures, industrial activity grew 0.6% after three months in contraction. In particular, all four main sectors were in positive territory, with the strongest being construction (+2.9%), in which civil engineering was up by a hefty 8.5%. Moreover, manufacturing edged up 0.2%, dragged by textiles except clothing (-11.4%) and oil and carbon (-1.5%). It is worth noting that transportation equipment declined 1.5%, in our view likely to extend to February given weak production according to *AMIA*. Finally, mining inched higher 0.2% on mining-related services (25.1%), which helped compensate for oil and gas production (-4.6%), while utilities increased 0.8%.

Industrial production: January 2019

% m/m, sa

	Jan-19	Dec-18	Nov-18
Total	0.6	-0.5	-0.6
Mining	0.2	-0.8	-1.7
Utilities	0.8	-3.6	1.2
Construction	2.9	1.3	-2.0
Manufacturing	0.2	-0.7	0.6

Source: INEGI

With these figures, industrial production remains relatively weak at -5.5% on a 3m/3m saar basis, with four consecutive months in negative territory but improving at the margin. Manufacturing stood at -3.1% from -4% in the previous month. Construction rebounded to 1.5% from -3.7%, while mining has extended its recession as it plunged to -14.7%, weakest since October 2017.

Industrial production: January 2019

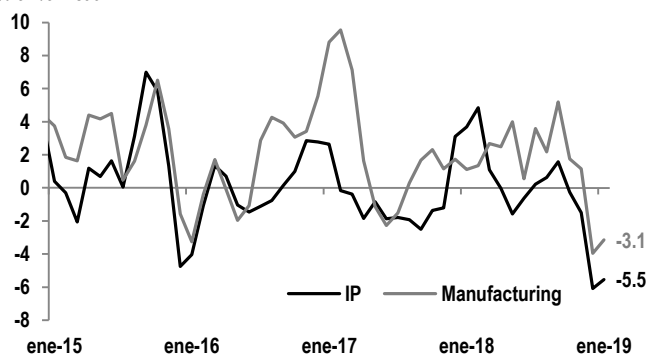
% 3m/3m saar

	Nov 18-Jan 19	Oct-Dec '18
Total	-5.5	-6.1
Mining	-14.8	-14.0
Utilities	-7.2	-7.6
Construction	1.2	-3.7
Manufacturing	-3.1	-4.0

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Industrial activity will likely be limited to the upside in 1Q19. We believe activity in this sector could show a more modest performance in coming months relative to the previous year. In our view, today's report does not reflect a strong impact from recent transitory shocks that impacted supply chains in several states at the beginning of the year. Despite of this, we will keep tracking closely if this remains the case in upcoming prints, as it is our take that a lag could be observed in terms of their effect.

Going forward, it is important to mention that manufacturing and global trade still show signs of moderating but will likely manage to stay positive in terms of annual growth in our country, taking into account that US industry keeps advancing at a relatively favorable pace. In this respect, we note the PMI manufacturing index in Mexico rebounded in February, reaching its highest since June 2017. Nevertheless, information from the auto sector in the same month was negative as production contracted 5% yoy. According to *AMIA*, this was because of platform changes at some plants but also due to problems in supply chains. On the other hand, we believe mining will remain a significant drag on growth.

On a more positive note, we also observed a modest rebound in business confidence in February in each of the sectors sampled (construction, manufacturing and services). Nevertheless, they have not recovered from the highs observed at the middle of last year, a situation that is in deep contrast with the strong performance of consumer confidence. In our view, this has to do with higher uncertainty in the local front, but with some indicators so far suggesting the possibility of a short-term recovery after the strong fall observed at the end of 2018.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

Analyst Certification.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

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
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454