

Industrial activity kept decelerating in November

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- **Industrial production (November): -1.3% yoy; Banorte: 0.5%; consensus: 0.5% (range of estimates: -1.0% - 1.4%); previous: 1.0%**
- **November's annual contraction was mainly explained by a fall in construction coupled with the decrease in mining output**
- **In addition, manufacturing posted a strong moderation, standing at 1.4% yoy from 2.6%**
- **In seasonally adjusted terms, IP decreased 0.6% m/m, adding two consecutive months of declines, were we highlight the contraction in mining and construction**
- **In our view, industrial activity will close the year on a weak tone, helping confirm the expected deceleration in terms of economic activity in 4Q18**
- **Looking ahead, it is our take that industry is facing relevant headwinds including the deceleration of global manufacturing, higher rates and uncertainty, and potential disruptions to the supply chain due to recent delays in fuel distribution**

Industrial output in November suggests a weak performance into year-end.

According to today's report published by *INEGI*, industrial production fell 1.3% yoy in November, below our 0.5% forecast which equaled market consensus. Among sectors, we highlight the decline of 3.3% in construction, its weakest since March. It is worth nothing that the decline was observed in spite of a favorable base effect, as the sector fell 5.5% in the same month of 2017. The contraction was broad-based, with building projects falling 2.9%) and civil engineering by 4.7%. On the other hand, mining contracted a whopping 8.0%, with oil and gas dropping 8.9% and with non-oil mining at -6.0%, its ninth consecutive month on the downside. This sector has observed negative growth since April 2014 (with the exception of last September due to a positive base effect), likely still limiting overall industrial production in coming months. Manufacturing output decelerated, growing at 1.4% from 2.5% in the previous month and an average increase of 2.3% in 3Q18. This is consistent with figures already published, including lower auto production, a moderation in US industrial activity, and the contraction in the IMEF manufacturing index. Taking a look at the breakdown, commodity-based industries such as basic metals and oil and carbon were the most impacted, falling 7.6% and 9.3%, respectively. On the contrary, furniture (+11.6%), textiles excl. clothing (+9.0%), and appliances (6.4%) were among the most dynamic.

Industrial production: November 2018

% yoy, nsa

	Nov-18	Nov-17	Jan-Nov, '18	Jan-Nov, '17
Total	-1.3	-1.3	0.4	-0.3
Mining	-8.0	-7.4	-5.2	-8.3
Utilities	0.8	3.1	2.4	-0.4
Construction	-3.3	-5.5	1.1	-1.3
Manufacturing	1.4	2.4	1.8	3.1

Source: INEGI

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With seasonally-adjusted figures, industrial activity contracted for second consecutive month. Industrial activity posted a 0.6% m/m decline, below our expectations of +0.2%. By subsectors, we highlight the 2.3% contraction in mining and of 1.9% in construction, with all three sectors in the latter ending lower. Manufacturing grew 1.0%, with a relatively positive sign in terms that only 4 out of 21 subsectors are in negative territory. Nevertheless, we note the contraction of 1.5% in the food industry, which is the top-producing sector even above transportation -which includes auto production-, and that could suggest a broader slowdown in coming months.

Industrial production: November 2018

% m/m, sa

	Nov-18	Oct-18	Sep-18
Total	-0.6	-1.7	1.2
Mining	-2.3	-2.3	-0.9
Utilities	1.4	-1.8	1.2
Construction	-1.9	-0.2	1.1
Manufacturing	1.0	-2.5	1.4

Source: INEGI

With these figures, industrial production plunged -1.5% 3m/3m saar, deteriorating for second month in a row. Moreover, manufacturing decelerated to 0.9% from 1.6% in the previous month, lowest since February. Construction and mining remain negative at -5.1% and -10.3%, respectively. In this regard, short-term dynamics in all subsectors have deteriorated, confirming our view that economic activity has weakened meaningfully in recent months.

Industrial production: November 2018

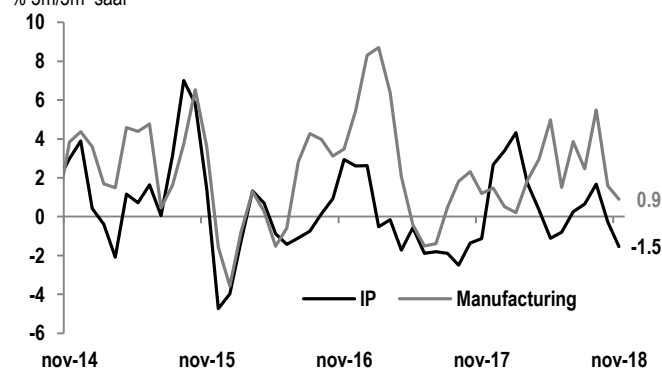
% 3m/3m saar

	Nov-18	Oct-18
Total	-1.5	-0.3
Mining	-10.3	-4.3
Utilities	0.4	3.3
Construction	-5.1	-5.5
Manufacturing	0.9	1.6

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Looking forward, industrial activity is likely to remain weak. In particular, we believe manufacturing could keep presenting more modest dynamism, while mining is likely to keep contracting at least during the next two quarters. On the other hand, construction faces a challenging environment, both due to local and external factors. In this respect and considering data published so far, we think industrial activity could be relatively flat this quarter, below the 1.1% increase in 3Q18.

Going forward, we are also concerned by the impact that the delay in fuel distribution in several states (which exacerbated in January) could have on industrial production given its potential to disrupt the supply chain. Moreover, global manufacturing has also weakened, in particular in the US with the ISM manufacturing from 59.3pts in November to 54.1pts in December, its lowest level since end-2016. Other regions such as China and the Eurozone have also showed less dynamism, most likely due to lower global trade. On the other hand, mining keeps declining at relatively high rates, which is mostly related to the decline of the oil production platform and is probable that it will remain as a key limiting factor to overall industrial activity. Lastly, and considering expectations of lower local and global growth, higher interest rates and elevated uncertainty, as well as the typical delay in infrastructure spending due to the entry of a new federal administration, it is our take that construction could also debilitate in 2019.

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