

Industrial production maintains a bleak outlook

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- **Industrial production (January): -0.1% yoy; Banorte-Ixe: -0.4%; consensus: 0% (range: -2.5% to 0.7%); previous: -0.6%**
- **The 0.1% contraction in January was explained by the 9.8% contraction in mining activity coupled with the 1% reduction in construction output**
- **However, manufacturing production increased 4.3% (+0.5% m/m)**
- **With today's figures, the mining industry now adds 32 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output increased 0.1% m/m**
- **Looking ahead, we expect industrial production to show a marginal reduction during the first quarter of the year**

IP posted a 0.1% yoy contraction in January. INEGI just published its IP report for January, where the headline index posted a 0.1% yoy contraction, above our -0.4% forecast (consensus: 0% yoy). Taking a look at the breakdown, manufacturing output increased 4.3% yoy. However, construction output fell 1%, as a result of the 1% contraction in building projects, whereas public civil engineering construction projects declined 11.1% yoy, given the fiscal cuts implemented by the Federal Government.

In addition, mining activity fell 9.8% as a result of the significant contraction in Mexico's oil production, as well as the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 32 consecutive months in contraction. Finally, utilities increased 1%, as shown in the table below.

Industrial production: January 2017
% yoy

%	Jan-17	Jan-16	Jan-Dec, '16	Jan-Dec, '15
Total	-0.1	0.0	0.0	1.0
Mining	-9.8	-3.0	-6.4	-4.6
Utilities	1.0	0.3	3.3	2.3
Construction	-1.0	2.4	1.8	2.5
Manufacturing	4.3	0.3	1.3	2.5

Contribution to growth	Jan-17	Jan-16	Difference
Total	-0.1	0.0	-0.1
Mining	-2.1	-0.7	-1.4
Utilities	0.1	0.0	0.1
Construction	-0.2	0.5	-0.7
Manufacturing	2.1	0.1	2.0

Source: INEGI, Banorte-Ixe

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In seasonally adjusted terms, IP posted a 0.1% m/m expansion. Taking a look at the breakdown, manufacturing output edged-up 0.5% m/m, while mining activity increased 1.1% m/m. However, construction activity posted a null growth. With these figures, industrial production posted a 1% 3m/3m annualized growth, explained by the 9.7% fall in mining output, coupled with manufacturing’s 6.8% 3m/3m saar growth (refer to the charts below).

Looking ahead, we expect industrial production to show a marginal fall in 1Q17. We continue to believe that Mexico’s manufacturing industry will recover in the coming months. We expect that the further depreciation of the Mexican currency, stemming from the results of the US election, will continue to benefit exports in the first quarter of the year. In addition, the uncertainty around the commercial relationship between Mexico and the US will probably boost the flow of exports during this period.

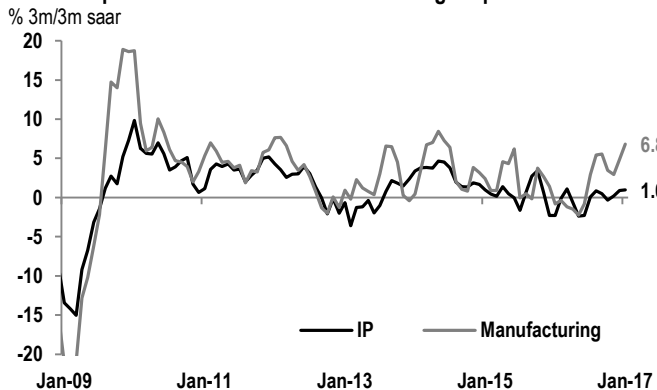
However, manufacturing’s growth will be offset by the contraction in construction output. As we have mentioned throughout our publications, the MXN\$76.4 billion (around US\$ 3.5 billion) fiscal cut that the Federal Government will implement in 1Q17 will affect the construction of public infrastructure projects. In addition, we believe that the uncertainty generated by the impact of Trump’s economic policies to the Mexican economy will discourage private construction projects. Moreover, we believe that Mexico’s mining industry will continue to fall throughout the first half of the year. All in all, we expect a marginal fall in industrial production during 1Q17.

Industrial production: January 2017

% m/m sa	Jan-17	Dec-16	Difference
Total	0.1	-0.1	0.2
Mining	1.1	-1.8	2.9
Utilities	-2.0	0.7	-2.7
Construction	0.0	-0.3	0.3
Manufacturing	0.5	0.7	-0.2

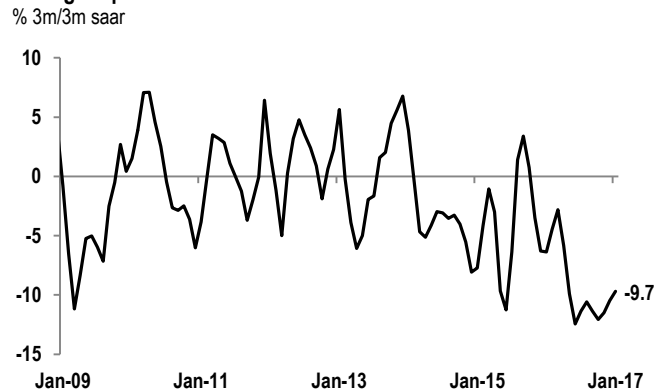
Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output



Source: Banorte-Ixe; INEGI

Mining output



Source: Banorte-Ixe; INEGI

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