

Pickup in construction drives industrial activity in July

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- **Industrial production (July): 1.3% yoy; Banorte: 0.6%; consensus: 1.0% (range: -1.0% to 2.1%); previous: 0.2%**
- **July's growth was driven by higher dynamism in construction and manufacturing; although partially offset by the persistent recession in the mining sector**
- **In seasonally adjusted terms, IP expanded 0.2% m/m, slightly lower than the previous month, with a 1.4% increase in construction and a 1.1% decrease in mining**
- **In our view, lower trade uncertainty and the relatively dynamic performance of the US economy could result in a gradual pickup in Mexico's industrial output in coming months**

Tentative signs of a pickup in construction activity. INEGI just published its IP report for July, where the headline index posted a 1.3% yoy expansion (non-seasonally adjusted figures), above our 0.6% forecast (consensus: 1.0%). We highlight stronger dynamics in construction, advancing 4.5% on the back of a 4.8% expansion in building projects, compensating for a 2.4% fall in civil engineering. On the contrary, mining remains weak, falling 7% due to the 7.7% decrease in oil and gas production. It is worth stressing that the latter has been in contraction for the last four years and nine months (since November 2013). Lastly, utilities grew 4.1%, as shown in the table below.

On the other hand, manufacturing increased 2.4% yoy. Among the most dynamic sub-sectors, we note the advance in beverages and tobacco (7.8%), metallic products (13.4%), textiles excluding clothing (7.7%) and transportation equipment (5.9%). On the contrary, we observed a strong decline in machinery and equipment (-17.8%) and oil- and carbon-based products (-7.2%).

Industrial production: July 2018
% yoy, nsa

	Jul-18	Jul-17	Jan-Jul, '18	Jan-Jul, '17
Total	1.3	-0.5	0.4	-0.5
Mining	-7.0	-8.3	-6.3	-9.6
Utilities	4.1	-1.4	1.8	-0.1
Construction	4.5	-2.4	2.3	-1.1
Manufacturing	2.4	3.5	1.7	3.3

Source: INEGI

Seasonally-adjusted figures suggest a more modest expansion. Industrial activity posted a 0.2% m/m gain, below the 0.4% increase in the previous month. This is partly explained by null growth in manufacturing in spite of a relatively strong performance of industrial production in the US. In a more positive note, construction picked up by 1.4% on the back of an increase of a similar magnitude in building projects, recovering during the last two months. In our opinion, the latter could have been driven by the continuation of projects that accelerated before elections day. On the other hand, mining fell by 1.1% as the component of services related to this sector plunged 15.1%

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Industrial production: July 2018

% m/m, sa

	Jul-18	Jun-18	May-18
Total	0.2	0.4	0.0
Mining	-1.1	-0.4	-0.7
Utilities	1.2	3.2	-4.5
Construction	1.4	0.8	-0.9
Manufacturing	0.0	0.3	1.9

Source: INEGI

With these figures, industrial production posted a 0.3% 3m/3m saar growth. We highlight the 4% increase in manufacturing, albeit supported by strong results in May. Nevertheless, construction declined by 2.5% after negative results in the beginning of the period. Lastly, mining contracted by 4.5%, slightly better than the figure observed in the previous month.

Industrial production: July 2018

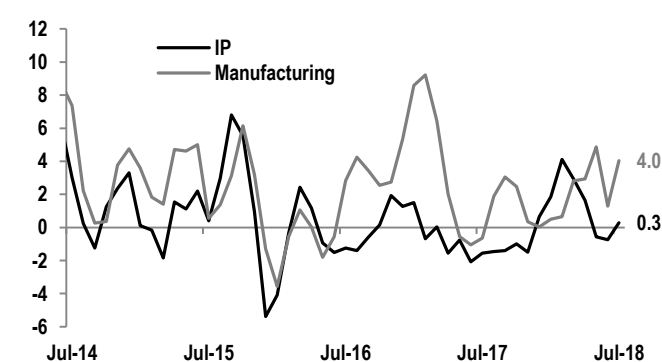
% 3m/3m saar

	Jul-18	Jun-18
Total	0.3	-0.7
Mining	-4.5	-5.9
Utilities	-0.6	3.1
Construction	-2.5	-5.9
Manufacturing	4.0	1.3

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Lower trade uncertainty and the relatively dynamic performance of the US economy could result in a gradual pickup in Mexico’s industrial output in coming months. In our view, the “agreement in principle” between the US and Mexico about their trade relationship announced on August 27th could result in higher optimism in terms of business confidence, in particular in the manufacturing sector, and which already saw a sizable increase after the election. Nevertheless, lingering uncertainty remains about a final agreement between the US and Canada, in addition to the exact moment in which the new treaty could come into effect. In this context, we expect a modest pickup in manufacturing in coming months, although industrial activity could be limited in case of a lower impulse from construction. Moreover, we expect mining to remain as a drag for overall industrial production given the delay in terms of the stabilization of oil output. All in all, it is our take that industrial activity could modestly rebound in the third quarter, improving when compared to the 0.7% 3m/3m saar contraction observed in the previous quarter.

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