

## Industrial production – Strong decline in mining and construction output

December 13, 2017

www.banorte.com  
www.ixe.com.mx  
@analisis\_fundam

**Alejandro Cervantes**  
Senior Economist, Mexico  
alejandro.cervantes@banorte.com

- **Industrial production (October): -1.1% yoy; Banorte-Ixe: 0%; consensus: 0.8% (range: -0.1% to 1.3%); previous: -1.2%**
- **The 1.1% contraction in October was explained by the 10.1% yoy decline in mining output, coupled with the 1.7% contraction in construction**
- **In seasonally adjusted terms, industrial production fell 0.1% m/m given the 0.6% m/m contraction in construction and manufacturing production**
- **Looking ahead, we expect a further deceleration of industrial production during 4Q17, as a result of lower construction and mining output**

**Strong decline in mining and construction.** *INEGI* just published its IP report for October, where the headline index posted a 1.1% yoy contraction, below our 0% forecast (consensus: +0.8% yoy). The reduction in industrial production was mostly explained by the 10.1% yoy contraction in mining output, given the reduction of oil production in the Gulf of Mexico.

In addition, construction fell 1.7% yoy, as a result of the 0.6% contraction in building projects, whereas public civil engineering construction projects declined 7.9% yoy, given the austerity program implemented by the Federal Government. By contrast, manufacturing output increased 2.7% yoy. Year-to-date, manufacturing output adds a 3.3% expansion.

**In seasonally adjusted terms, IP fell 0.1% m/m.** Taking a look at the breakdown, manufacturing output posted a 0.6% m/m reduction. In addition, construction output fell 0.6% m/m, as a result of the 1.3% decrease in building projects. By contrast, mining activity increased 4.2% m/m.

With these figures, industrial production posted a 2.1% 3m/3m annualized contraction, explained by the 21.1% fall in mining output. Moreover, manufacturing production increased 1.7%, whereas construction posted a 1.7% 3m/3m saar reduction (refer to the charts on the third page).

Document for distribution among public

**Looking ahead, we expect a deceleration of industrial production.** As we have mentioned throughout our publications, manufacturing production growth during the first half of the year was mostly explained by the uncertain trade relation with the US, which fostered a higher flow of exports, hedging a scenario of future tariffs.

In recent weeks, market participants have discounted a higher probability that the US will exit NAFTA, which has reflected in the behavior of the Mexican currency. In this context, we consider that external demand –particularly from the US– for Mexican manufactured products has increased during the fourth quarter of the year, following the depreciation of the peso, which will have a positive impact on Mexican manufacturing production.

By contrast, the austerity program that the Federal Government has implemented will affect construction of public infrastructure projects. Similarly, we believe that the uncertainty generated by the political environment will continue to discourage private investment projects.

However, we expect a higher growth in construction output as soon as 1Q18 derived from: (1) Increase of building projects, as a result of the reconstruction works that will begin in the cities affected by September earthquakes; and (2) the electoral process in 2018 will trigger a higher public expenditure within the federal entities and municipalities, which will be concentrated in infrastructure projects.

Moreover, we believe that Mexico’s mining industry will continue to fall throughout the year, as a result of Government’s fiscal consolidation plan which has affected Mexico’s drilling projects. All in all, we expect that the negative effects coming from the lower mining and construction output will over-compensate the positive impact of a higher manufacturing production. As a result, we expect a deceleration of industrial production in the fourth quarter of the year.

#### Industrial production: October 2017

% yoy; %-pts

%yoy	Oct-17	Oct-16	Jan-Oct, '17	Jan-Oct, '16
Total	-1.1	-1.3	-0.6	0.3
Mining	-10.2	-5.8	-10.1	-3.4
Utilities	-3.2	-1.1	-0.6	0.2
Construction	-1.7	2.4	-1.2	2.0
Manufacturing	2.7	-1.3	3.3	1.0
Contribution to growth	Oct-17	Oct-16	Difference	
Total	-1.1	-1.3	0.2	
Mining	-1.9	-1.1	-0.8	
Utilities	-0.2	-0.1	-0.1	
Construction	-0.4	0.6	-1.0	
Manufacturing	1.4	-0.7	2.1	

Source: INEGI, Banorte-Ixe

### Industrial production: October 2017

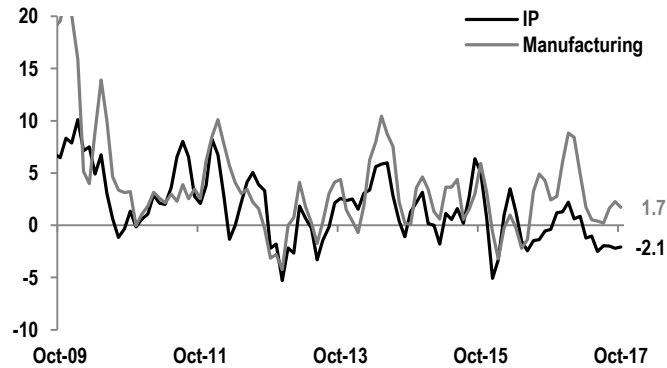
% m/m sa

	Oct-17	Sep-17	Difference
Total	-0.1	-0.4	0.3
Mining	4.7	-6.5	11.3
Utilities	-4.0	2.2	-6.2
Construction	-0.6	0.8	-1.4
Manufacturing	-0.6	-0.2	-0.3

Source: INEGI, Banorte-lxe

### Industrial production: Total and manufacturing output

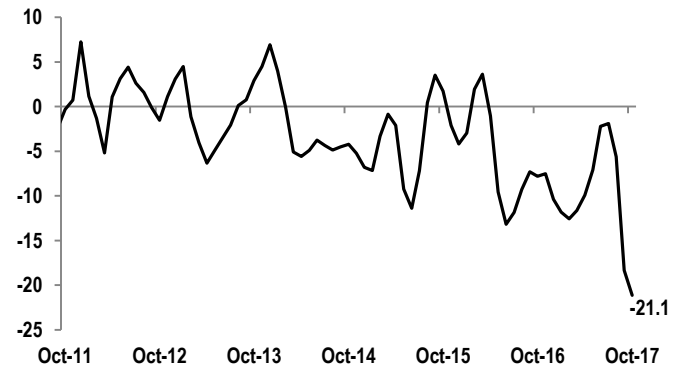
% 3m/3m saar



Source: Banorte-lxe; INEGI

### Mining output

% 3m/3m saar



Source: Banorte-lxe; INEGI

### 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.

**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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
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
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

**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
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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454