

## Industrial activity in September rebounds on a favorable base-effect in mining

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- **Industrial production (September): 1.8% yoy; Banorte: 1.6%; consensus: 1.8% (range of estimates: 1.1% - 2.1%); previous: 0.2%**
- **September's annual growth was driven by a favorable base effect in the mining sector, posting its first increase in the last almost four and a half years**
- **In addition, manufacturing kept growing at a healthy rate, albeit compensated by the fall in construction**
- **In seasonally adjusted terms, IP increased 1% m/m, its sharpest increase YTD, were we highlight the expansion in manufacturing and construction**
- **Today's report confirms greater dynamism in 3Q18 vs. the previous quarter**
- **Looking ahead, we believe manufacturing will continue to drive industrial production, despite being still weighed down by mining**

### **Pickup in industrial output driven by a favorable base effect in mining.**

INEGI just published its IP report for September, where the headline index posted a 1.8% yoy expansion (non-seasonally adjusted figures), marginally above our 1.6% forecast (consensus: 1.8%). We highlight that one of the main reasons behind the expansion was the increase in mining due to a favorable base-effect given that oil production was impacted last year by Hurricane Katia and the two earthquakes. In particular, this sector rebounded 2.9% yoy, its first increase in a little less than four and a half years. Within this component, we highlight the 5.6% advance in oil and gas.

Manufacturing output continued posting a healthy growth rate as it expanded 2.4%, relatively in line with the 2.2% average from June to August. In this sense, US industrial output grew 4% (nsa figures), which continues to have a positive effect in domestic production. Taking a look at the breakdown, and in line with the favorable base-effect seen in mining, manufacturing of oil- and carbon-based products grew 5.3%. In addition, we highlight the increase in textiles excluding clothing (13.7%), electric devices (7.7), and computer equipment (5%). In contrast, "other manufacturing industries" fell by 5.6%.

However, construction fell for a second consecutive month (-0.7%), albeit moderating its rhythm vs. the previous month (-1.9%). It is worth noting that this weakness stemmed from the contraction in building projects (-2.7%), which more than compensated for the recovery in civil engineering (1.8%).

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% yoy, nsa

	Sep-18	Sep-17	Jan-Sep, '18	Jan-Sep, '17
Total	1.8	-1.5	0.5	-0.2
Mining	2.9	-14.0	-4.9	-8.3
Utilities	3.2	0.6	2.3	-0.4
Construction	-0.7	0.3	1.6	-0.8
Manufacturing	2.4	2.0	1.7	3.2

Source: INEGI

### Seasonally-adjusted figures confirm the recovery in 3Q18 vs. 2Q18.

Industrial activity posted a 1% m/m expansion, in line with our expectations and its strongest increase so far this year. By subsectors, we highlight the 1.1% pickup in both manufacturing and construction. In the first category, we note the significant expansion in textiles excluding clothes (15.5%), electrical devices (8.9%), and transportation equipment (7.6%). Moreover, growth in construction was driven by civil engineering (2.9%), despite the fall in building projects (-2.1%). By contrast, mining decreased 0.6%, supporting our view that the sector will continue weighing in overall economic activity in coming quarters.

### Industrial production: September 2018

% m/m, sa

	Sep-18	Aug-18	Jul-18
Total	1.0	-0.2	0.2
Mining	-0.6	1.9	-1.9
Utilities	0.7	-1.3	1.3
Construction	1.1	-2.8	1.3
Manufacturing	1.1	0.4	0.0

Source: INEGI

With these figures, industrial production posted a 2.8% 3m/3m saar growth, improving for the third month in a row. Particularly, manufacturing accelerated to 6% from 3.4% in the previous month. However, both construction and mining stood by this measure at -1% and -5.3%, respectively. In this regard, we highlight that construction moderated its rate of contraction, suggesting an improvement at the margin.

### Industrial production: September 2018

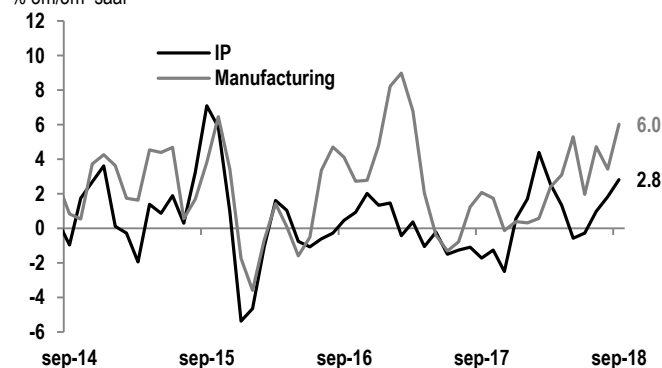
% 3m/3m saar

	Sep-18	Aug-18
Total	2.8	1.8
Mining	-5.3	-4.1
Utilities	6.0	9.9
Construction	-1.0	-2.0
Manufacturing	6.0	3.4

Source: INEGI

### Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

**Looking ahead, we believe manufacturing will continue to drive industrial production, despite being still weighed down by mining.** In this respect,

manufacturing has increased 1.7% yoy YTD. Nevertheless, this growth has somewhat accelerated recently, reaching 2.6% in the last four months. Considering this pickup, we believe the sector will continue to be the main force behind growth in industrial activity. Construction has turned moderately negative after a positive performance from April to July. However, this moderated in the current month, which could point to an incipient recovery that we will be closely monitoring in the short-term. Regarding mining, as we previously mentioned, today's transition to positive territory was explained by a favorable base-effect, a factor that will be diluted as soon as in the next print, thus taking the figure back to contraction territory. In this sense, we believe the persistent fall in oil and gas will continue weighing overall industrial activity.

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