

## Industrial production – October’s weak growth explained by lower construction and manufacturing output

December 11, 2015

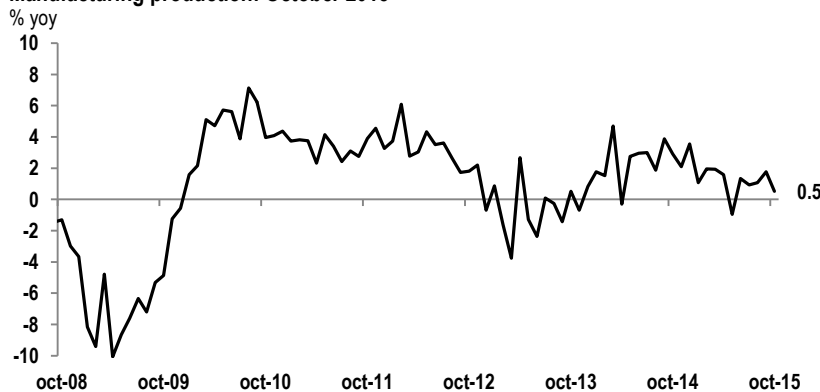
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- **Industrial production (October): 0.5% yoy; Banorte-Ixe: 1%; consensus: 1% (range: 0.3% to 1.9%); previous: 1.7%**
- **IP’s scant growth was partially explained by the lower construction and manufacturing output (2.2% and 1.2% yoy, respectively)**
- **Mining activity fell 4.3% yoy, adding 19 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output fell 0.1% m/m (Banorte-Ixe: -0.2%)**
- **However, IP posted a 3.7% 3m/3m saar growth, while manufacturing and construction output edged-up 3.9% and 5.8%, respectively**
- **Looking ahead, we expect industrial production to gain momentum**

**October’s scant growth explained by the lower construction and manufacturing output.** INEGI just published its IP report for October, where the headline index increased 0.5% yoy (consensus: 1% yoy; Banorte-Ixe: 1%). IP’s scant growth was partially explained by the 1.2% yoy growth in manufacturing production. Moreover, construction output increased 2.2% yoy, while mining activity declined 4.3%, as a result of the significant contraction in Mexico’s oil production. With today’s report, the mining industry now adds nineteen consecutive months in contraction. Finally, utilities edged-up 4.5% yoy, as shown in the table on the following page.

**Manufacturing production: October 2015**



Source: INEGI, Banorte-Ixe

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**Industrial production: October 2015**

<b>%yoy</b>	<b>Oct-15</b>	<b>Oct-14</b>	<b>Jan-Oct, '15</b>	<b>Jan-Oct, '14</b>
Total	0.5	2.9	1.1	2.5
Mining	-4.3	-4.5	-6.1	-0.7
Utilities	4.5	9.1	4.0	8.4
Construction	2.2	5.5	3.4	1.2
Manufacturing	1.2	4.3	2.9	3.8
<b>%yoy calendar effect</b>	<b>Oct-15</b>	<b>Oct-14</b>	<b>Jan-Oct, '15</b>	<b>Jan-Oct, '14</b>
Total	1.0	2.9	1.2	2.5
Mining	-4.3	-4.5	-6.1	-0.7
Utilities	4.5	9.1	4.0	8.4
Construction	2.3	5.7	3.4	1.2
Manufacturing	2.4	4.1	3.0	3.7
<b>Contribution to growth</b>	<b>Oct-15</b>	<b>Oct-14</b>	<b>Difference</b>	
Total	0.5	2.9	-2.4	
Mining	-0.9	-1.0	0.1	
Utilities	0.3	0.6	-0.3	
Construction	0.5	1.2	-0.7	
Manufacturing	0.6	2.1	-1.5	

Source: INEGI, Banorte-Ixe

**In seasonally adjusted terms, IP decreased 0.1% m/m.** Taking a look at the breakdown, manufacturing output edged-up 0.1% m/m. However, construction activity posted a null growth over the previous month, while mining production fell 0.6% m/m. With these figures, industrial production is up 3.7% 3m/3m saar, as shown in the chart below. Moreover, manufacturing production is up by 3.9% 3m/3m saar, while construction output increased 5.8% 3m/3m saar.

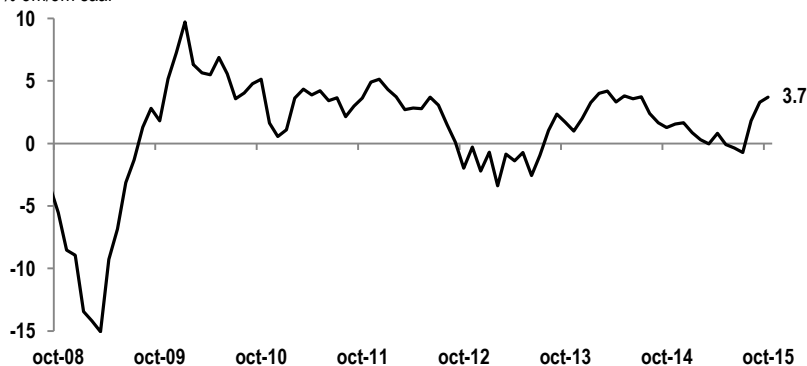
**Industrial production: October 2015**

<b>%m/m sa</b>	<b>Oct-15</b>	<b>Sep-15</b>	<b>Difference</b>
Total	-0.1	0.4	-0.5
Mining	-0.6	0.1	-0.7
Utilities	0.6	1.0	-0.3
Construction	0.0	0.4	-0.3
Manufacturing	0.1	0.0	0.2

Source: INEGI, Banorte-Ixe

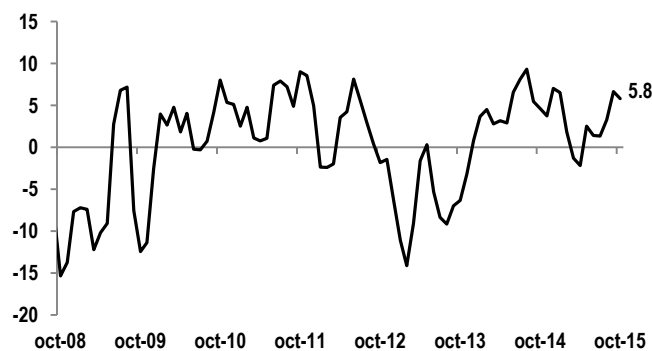
**Industrial production**

% 3m/3m saar



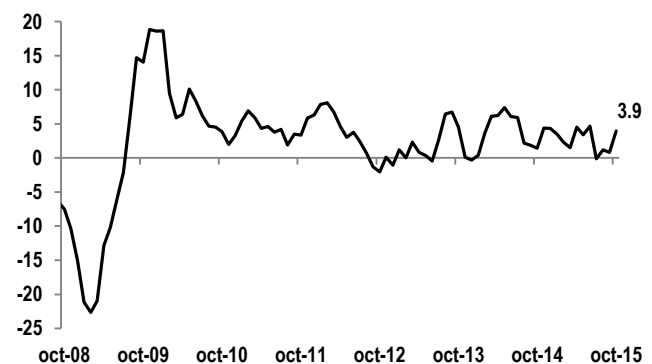
Source: Banorte-Ixe; INEGI

**Construction**  
% 3m/3m saar



Source: Banorte-ixe; INEGI

**Manufacturing production**  
% 3m/3m saar



Source: Banorte-ixe; INEGI

**Looking ahead, we expect industrial production to gain momentum.** The deceleration in Mexico’s manufacturing output during the first half of the year was mainly explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Looking ahead, we believe that Mexico’s auto-industry will be affected by the recent Volkswagen scandal, given that this firm’s production fell 19.9% yoy in November.

Nevertheless, we believe that Mexico’s non-vehicle manufacturing industry will strengthen in the last quarter of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico’s manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that construction output will continue to recover in the last quarter of the year, given the upward trend in private consumption and investment. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico’s oil production– will continue limiting the recovery of industrial activity.

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