

# Industrial production – Lower than expected growth in manufacturing output

August 11, 2017

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

**Alejandro Cervantes**  
Senior Economist, Mexico  
alejandrocervantes@banorte.com

- **Industrial production (June): -0.3% yoy; Banorte-Ixe: 0.2%; consensus: 0.3% (range: -0.5% to 0.5%); previous: 1%**
- **The 0.3% contraction in June was explained by the 7.5% yoy contraction in mining output, coupled with a lower than expected growth in manufacturing output**
- **With today’s figures mining activity now adds 37 consecutive months in contraction**
- **In seasonally adjusted terms, industrial production increased 0.1% as a result of the 0.3% m/m gain in construction output**
- **Looking ahead, we expect a marginal recovery of industrial production**

**Lower than expected growth in manufacturing output.** INEGI just published its IP report for June, where the headline index posted a 0.3% yoy contraction, below our 0.2% growth forecast (consensus: 0.3% yoy). The reduction in industrial production was explained by the 7.5% yoy contraction in mining output, as a result of the significant fall in Mexico’s oil production, as well as the lower investment in Mexico’s drilling projects. With today’s figure, mining activity now adds 37 consecutive months in contraction.

In addition, construction posted a marginal 0.1% yoy gain, which was explained by the 2.6% growth in building projects, whereas public civil engineering construction projects declined 8.4% yoy, given the austerity program implemented by the Federal Government. In addition, manufacturing output increased a scant 2.3% yoy (Banorte-Ixe: 3.8%; Bloomberg consensus: 3.6%), as a result of a 0.4% contraction in the production of electronic equipment. Finally, utilities decreased 0.8%, as shown in the following table.

**Industrial production: June 2017**

% yoy; %-pts

<b>%yoy</b>	<b>Jun-17</b>	<b>Jun-16</b>	<b>Jan-Jun, '17</b>	<b>Jan-Jun, '16</b>
Total	-0.3	0.6	-0.3	0.4
Mining	-7.5	-6.2	-10.1	-4.0
Utilities	-0.8	6.8	-1.2	3.3
Construction	0.1	3.0	-0.1	2.2
Manufacturing	2.3	1.4	3.6	1.1
<b>Contribution to growth</b>	<b>Jun-17</b>	<b>Jun-16</b>	<b>Difference</b>	
Total	-0.3	0.6	-0.8	
Mining	-1.4	-1.3	-0.2	
Utilities	-0.1	0.4	-0.5	
Construction	0.0	0.7	-0.6	
Manufacturing	1.2	0.7	0.5	

Source: INEGI, Banorte-Ixe

Document for distribution among public

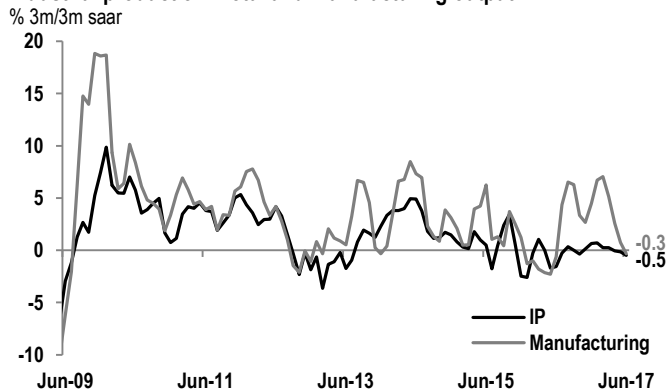
**In seasonally adjusted terms, IP increased 0.1% m/m.** Taking a look at the breakdown, manufacturing output posted a 0.2% m/m contraction; however, construction output expanded 0.3% m/m, as a result of the 1.2% increase in building projects, despite the 1.2% m/m fall of public civil engineering construction projects. In addition, mining activity increased 0.1% m/m. With these figures, industrial production posted a 0.5% 3m/3m annualized contraction, explained by the 3.8% fall in mining output. In addition, manufacturing production fell 0.3% 3m/3m saar.

**Industrial production: June 2017**

% m/m sa	Jun-17	May-17	Difference
Total	0.1	0.0	0.2
Mining	0.1	0.2	-0.1
Utilities	1.0	0.6	0.5
Construction	0.3	0.9	-0.5
Manufacturing	-0.2	-0.4	0.3

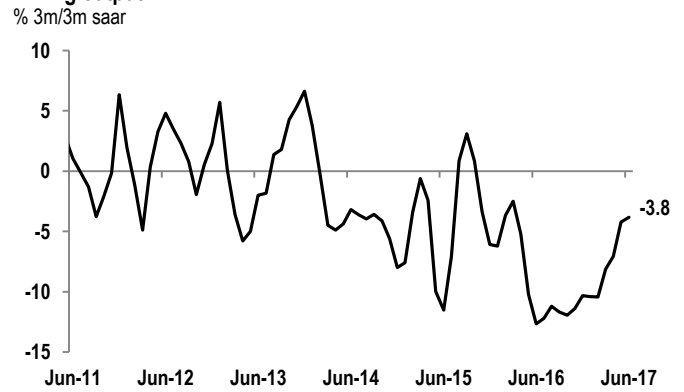
Source: INEGI, Banorte-lxe

**Industrial production: Total and manufacturing output**



Source: Banorte-lxe; INEGI

**Mining output**



Source: Banorte-lxe; INEGI

**Looking ahead, we expect industrial production to show a marginal recovery.** We continue to believe that Mexico’s manufacturing industry will recover in the third quarter. We expect that the higher growth of external demand will continue to foster manufacturing production and exports in the second half 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 partially offset by the contraction in construction output. As we have mentioned throughout our publications, 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 construction 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 a marginal recovery in industrial production in the third quarter of the year.

**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