

## Industrial production – Recovery in mining and construction in August

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- **Industrial production (August): -1.3% yoy; Banorte: -1.9%; consensus: -2.0% (range: -3.5% to 0.1%); previous: -1.8%**
- **This is the tenth consecutive month with the indicator in negative territory on an annual basis. Year-to-date, industry has declined 1.7%**
- **Activity rebounded 0.8% m/m after falling 0.3% in July, which could be signaling a slight pick-up towards the end of 3Q19. All sectors were up except manufacturing, which edged-down 0.4%**
- **US survey data suggests weakness in manufacturing during September, impacted by the GM workers strike, which already has had an impact in our country**
- **Nevertheless, it will be relevant to monitor further developments in mining and construction, hoping that August's performance extends into the following months**

### **Industrial activity remains in contraction in the annual comparison.**

Industrial production fell 1.3% yoy, beating both consensus (-2.0%) and our forecast (-1.9%). This is the 10<sup>th</sup> consecutive month in negative territory, resulting in a 1.7% yoy decline on a year-to-date basis. We highlight that both construction and mining improved significantly relative to last month's figures, showing a contraction of 2.9% and 3.2%, respectively. Within the former, we highlight the return to positive of the edification sub-sector (+1.0%), a development which we consider to be particularly favorable given recent dynamics, which had been adversely impacted by the suspension of building projects in Mexico City. Nevertheless, both civil engineering (-2.4%) and specialized services within the sector (-20.4%) remain in contraction. On mining, oil and gas production fell 5.6%, above what advanced data suggested, given that figures from Pemex pointed to a 8.3% contraction in crude extraction. However, we believe that the latter could be compensating for a mismatch in the previous month, in which we observed an opposite behavior. Regarding non-oil mining, it edged down 0.2%, with a strong rebound in services related to the sector (+9.8%).

Manufacturing returned to negative territory at -0.5% after the strong 3.0% expansion in the previous month. However, it should be noted that figures for the month are distorted by an adverse calendar effect, as August 2019 had one less working day relative to last year. In particular, 16 out of 21 subsectors were negative. Nevertheless, the remaining five which were actually positive or flat represent around 44% of total manufacturing activity, highlighting the increase in computer equipment (+4.8%), basic metallic industries (+3.0%), and food industry (+0.8%). On the contrary, the steepest falls were seen in manufacturing of textile supplies (-8.0%), clothing (-5.7%) and electrical goods (-5.3%).

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### Industrial production: August 2019

% yoy, nsa

	Aug-19	Aug-18	Jan-Aug, '19	Jan-Aug, '18
<b>Total</b>	-1.3	0.3	-1.7	0.4
Mining	-3.2	-4.0	-7.1	-5.8
Utilities	2.7	3.5	0.6	2.1
Construction	-2.9	-1.8	-4.3	1.9
Manufacturing	-0.5	2.2	0.8	1.7

Source: INEGI

**With seasonally-adjusted figures, activity expanded 0.8% m/m.** This figure comes after falling 0.3% in July. We highlight that only manufacturing fell, edging down 0.4%, more than reversing the 0.2% increase of the previous month. As seen in the annual comparison, textile supplies led the fall (-4.9%), followed by electrical goods (-2.7%). On a more negative note, transportation now adds two months of declines, with a 1.7% decrease in August. Meanwhile, the food industry declined 0.9%, which comes after a 0.7% expansion in the previous month.

Mining more than reversed its previous month decline as it expanded 5.2%. In particular, oil surprised to the upside (4.0%), while mining-related services jumped 19.4%. Last but not least, construction picked-up in a relevant magnitude (+3.2%), with all subsectors positive, highlighting the 3.2% bounce in edification. With these figures, industrial production stands at 0.0% on a 3m/3m saar basis, improving significantly relative to the previous month and with a largely favorable dynamic at a sector level, albeit with manufacturing marginally slowing down.

### Industrial production: August 2019

% m/m, sa

	Aug-19	Jul-19	Jun-19
<b>Total</b>	0.8	-0.3	1.1
Mining	5.2	-3.0	2.5
Utilities	1.8	-0.4	1.2
Construction	2.3	-0.7	3.4
Manufacturing	-0.4	0.2	0.3

Source: INEGI

### Industrial production: August 2019

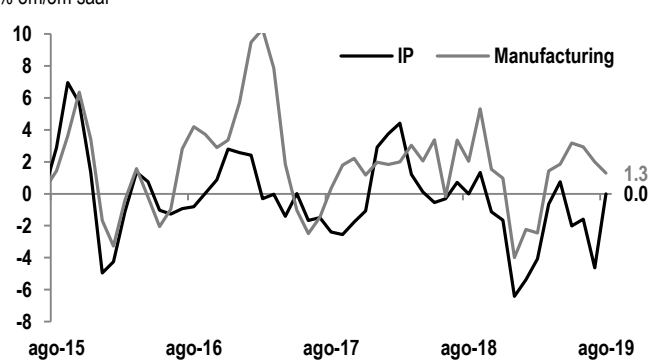
% 3m/3m saar

	Jun-Aug'19	May-Jul'19
<b>Total</b>	<b>0.0</b>	<b>-4.6</b>
Mining	3.7	-7.1
Utilities	7.9	5.0
Construction	-1.2	-16.6
Manufacturing	1.3	2.0

Source: INEGI

### Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

**Mixed scenario for IP, with a possible negative impact due to external factors.** In our view, several indicators continue to suggest that activity remains challenged. In particular, most US manufacturing survey data for September shows weakness, with the manufacturing ISM reaching new lows since the financial crisis. We believe that this deceleration is partly explained by the GM workers strike, which already has had an impact in Mexico. In detail, work has been suspended in the Silao manufacturing plant in Guanajuato, which employs around 6,000 workers. In addition, the engine and transmission has slowed down production, with around 400 employees being temporarily suspended. In this sense, we believe that this will negatively impact figures for September and October, considering that the strike is still going at the time of the publication of this report. However, there could be some positive fallout given the recent advance in the US-China trade negotiations, which could reduce uncertainty on global trade, possible giving some support to manufacturing across the globe.

In manufacturing, both the preliminary PMI index and the ISM manufacturing in the US fell further in August when compared to the previous month, standing in contraction and at multi-year lows. This is likely to remain as a headwind for our country, given the deep integration of supply chains. Mexico's IMEF manufacturing index for the same month also dipped to 47.4pts, with previous figures revised lower –adding four months in contraction– and with the production and new orders subcomponents among those hit the hardest. Nevertheless, this could be partially offset by the recent appreciation of the Mexican Peso, which posted a 0.5% gain in September.

On construction, we highlight the strong increase in edification, which seems to be showing some signs of recovery after a considerable decrease since last May. In this context, some comments by industry groups point to some advances within the sector in Mexico City, with some measures by the local government that seek to restart activity. In addition, recent business confidence prints for the sector show some relief, which could provide some support in coming months. However, we will remain attentive to the pace of public expenditures, particularly on infrastructure, remembering that civil engineering works now accumulate 7 consecutive months in contraction.

Regarding mining, we consider that more information is necessary to evaluate this sector's performance, particularly given the discrepancies we have seen in the last couple of months between the report and those published by Pemex. However, if the recent crude output trend is maintained, this sector could become less of a drag for overall industrial activity.

All in all, we maintain our view of a stronger performance in coming months, despite the possible impact that the GM strike could have on manufacturing. Nevertheless, we still expect that during 2019, industrial activity will contract relative to the previous year.

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