

Industrial production – June’s 0.6% yoy growth explained by lower manufacturing output

August 11, 2016

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- **Industrial production (June): 0.6% yoy; Banorte-Ixe: 0.7%; consensus: 0.6% (range: -0.3% to 0.8%); previous: 0.4%**
- **Manufacturing production (June): 1.2% yoy; Banorte-Ixe: 1.3%; consensus: 1.5% (range: 0.9% to 1.8%); previous: 0.8%**
- **IP’s scant expansion in June was explained by the marginal growth in manufacturing output, coupled with the 5.8% contraction in mining activity**
- **With today’s figures, the mining industry now adds 25 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output increased 0.1% m/m...**
- **...however, IP posted a 2.1% 3m/3m saar contraction, while manufacturing output edged-down to -1.7%**
- **Looking ahead, we expect industrial production to show a marginal recovery**

June’s marginal growth explained by manufacturing output’s downward trend. INEGI just published its IP report for June, where the headline index posted a 0.6% yoy expansion, marginally below our 0.7% forecast (consensus: 0.6% yoy). Taking a look at the breakdown, manufacturing output increased 1.2% yoy (Banorte-Ixe: 1.3%; consensus: 1.5%) derived from the following factors: (1) A scant 0.7% yoy expansion in motor vehicles and auto-parts industry, given the fall in vehicle exports to the US; (2) a 1.7% expansion in the production of electrical equipment and appliances; (3) an 1.3% increase in the production of machinery and equipment; (4) the 3.1% contraction in the fabrication of oil-based products and materials; and (5) a 7.3% yoy expansion in the fabrication of computer equipment.

Moreover, construction output increased 3.1%, as a result of the 8.5% growth in building projects, whereas public civil engineering construction projects declined 14.6% yoy, given the fiscal cuts implemented by the Federal Government. Moreover, mining activity fell 5.8% as a result of the significant contraction in Mexico’s oil production. With today’s figure, mining activity now adds 25 consecutive months in contraction. Finally, utilities increased 7.2%, as shown in the table on the next page.

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Industrial production: June 2016

%yoy	Jun-16	Jun-15	Jan-Jun, '16	Jan-Jun, '15
Total	0.6	1.2	0.7	1.2
Mining	-5.8	-6.4	-3.7	-6.6
Utilities	7.2	2.1	4.1	4.4
Construction	3.1	2.4	2.4	3.9
Manufacturing	1.2	3.8	1.3	3.1
Contribution to growth	Jun-16	Jun-15	Difference	
Total	0.6	1.2	-0.6	
Mining	-1.2	-1.4	0.2	
Utilities	0.5	0.1	0.3	
Construction	0.7	0.5	0.1	
Manufacturing	0.6	1.9	-1.3	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 0.1% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.4% m/m. Moreover, construction activity also increased 0.4% m/m expansion, while mining fell 0.7% m/m. However, with these figures, industrial production is down by -2.1% 3m/3m saar from 1.1% in 1Q16. Moreover, manufacturing production edged-down to -1.7% 3m/3m saar from -0.3% in 1Q16, while construction output posted a 0.9% growth (refer to the charts on the next page).

Looking ahead, we expect a marginal recovery in industrial production. Today's report shows the significant deceleration in Mexico's manufacturing output, as a result of the slower growth in the US manufacturing sector. Moreover, the manufacturing sub-sectors that hold a strong correlation with commodities prices have also decelerated significantly.

Nevertheless, we continue to believe that Mexico's manufacturing industry will show a marginal recovery during the third quarter of the year given: (1) Manufacturing exports of final goods will continue to show a moderate expansion given the still depreciated Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will continue to translate into a stronger domestic demand for manufactured goods. However, this recovery will be bounded by the slowdown of the US manufacturing industry, coupled with the significant deceleration in Mexico's vehicle production and exports, given the moderate growth in US vehicles imports.

We also believe that construction output will show a marginal recovery in the second half of the year, given the upward trend in private consumption and the higher supply of banking credit for households and firms. However, it is likely that the fiscal cuts announced by the Federal Government for 2016 will subdue Mexico's overall construction growth throughout the year.

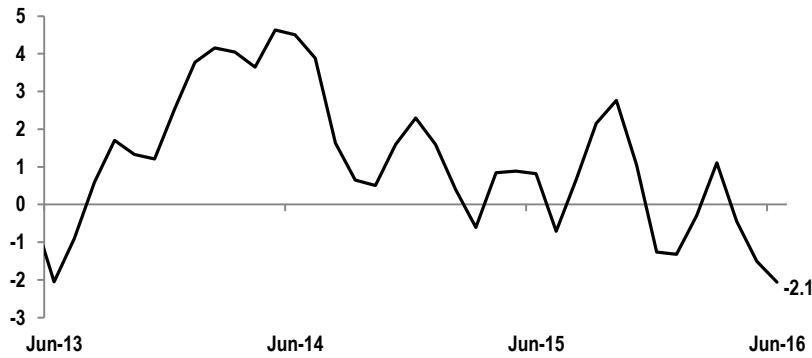
Industrial production: June 2016

%m/m sa	Jun-16	May-16	Difference
Total	0.1	0.3	-0.2
Mining	-0.7	-0.5	-0.3
Utilities	1.1	1.5	-0.4
Construction	0.4	0.5	-0.1
Manufacturing	0.4	0.2	0.3

Source: INEGI, Banorte-Ixe

Industrial production

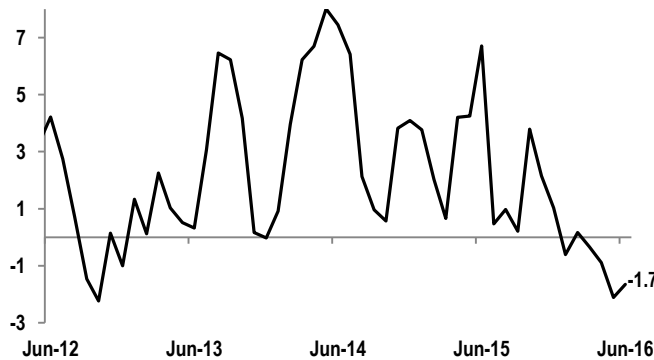
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Manufacturing production

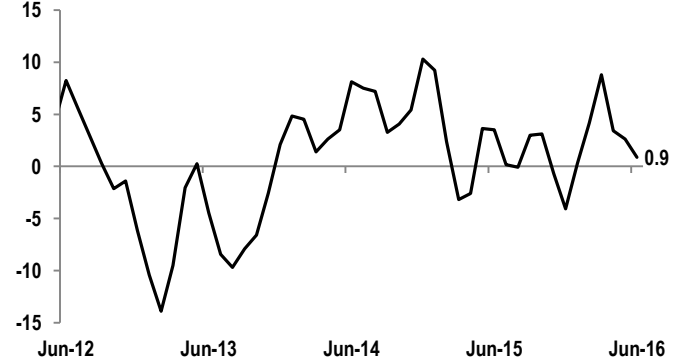
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Construction output

% 3m/3m saar



Source: Banorte-Ixe; INEGI

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