

Industrial production – Significant deceleration in manufacturing output

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- **Industrial production (February): 0.7% yoy; Banorte: 1.5%; consensus: 1.2% (range: 0.1% to 1.6%); previous: 0.9%**
- **The 0.7% yoy expansion in February was explained by the 4.5% yoy growth in construction output, coupled with the marginal 0.9% yoy increase in manufacturing production. Mining output posted a 5.7% yoy contraction**
- **In seasonally adjusted terms, industrial production posted a 0.4% m/m expansion**
- **Looking ahead, we expect a marginal recovery of industrial production during the first half of the year**

Significant deceleration in manufacturing output. *INEGI* just published its IP report for February, where the headline index posted a 0.7% yoy expansion, below our 1.5% forecast (consensus: 0.4% yoy). The marginal expansion in industrial production during February was mostly explained by the 4.5% yoy increase in construction output as a result of the 7.7% expansion in building projects, whereas civil engineering construction projects declined 7.2% yoy. By contrast, mining output edged-down 5.7% yoy, given the 6.8% reduction in oil and gas production.

In addition, manufacturing output increased a scant 0.9% yoy, as a result of the 39.3% yoy reduction in the fabrication of oil and carbon-based products coupled with the 6.2% contraction in the production of electric equipment. Nevertheless, vehicle production increased 6.5% yoy, while the fabrication of machinery and equipment posted a 5.7% yoy expansion.

In seasonally adjusted terms, IP in February posted a 0.4% m/m expansion. Taking a look at the breakdown, manufacturing output posted a 0.6% m/m increase. In addition, construction output expanded 0.5% m/m, as a result of the 2% growth in building projects. By contrast, mining activity posted a 1.9% m/m contraction.

With these figures, industrial production posted a 4.6% 3m/3m annualized growth, explained by the 18.2% 3m/3m saar expansion in construction. Moreover, mining output posted an 8.9% growth, while manufacturing output increased a scant 0.3% 3m/3m saar (refer to the charts on the third page).

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Looking ahead, we expect a marginal recovery of industrial production. We believe that Mexican manufacturing production will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the presidential elections that will take place in our country on the 1st of July will probably reflect in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

In addition, we expect that the higher growth in construction output will continue throughout the second quarter derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico's mining industry will continue to fall throughout the first half of the year (% yoy, nsa). All in all, we expect that the positive effects coming from the higher public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal recovery of industrial production in the first half of 2018.

Industrial production: February 2018

% yoy ; %-pts

%yoy	Feb-18	Feb-17	Jan-Feb, '18	Jan-Feb, '17
Total	0.7	-2.3	0.8	-1.0
Mining	-5.7	-14.3	-5.3	-11.8
Utilities	3.1	-1.1	2.3	-0.1
Construction	4.5	-0.1	4.4	0.2
Manufacturing	0.9	1.2	1.1	2.7
Contribution to growth	Feb-18	Feb-17	Difference	
Total	0.7	-2.3	3.1	
Mining	-1.0	-2.9	1.9	
Utilities	0.1	0.0	0.2	
Construction	1.1	0.0	1.1	
Manufacturing	0.5	0.6	-0.1	

Source: INEGI, Banorte

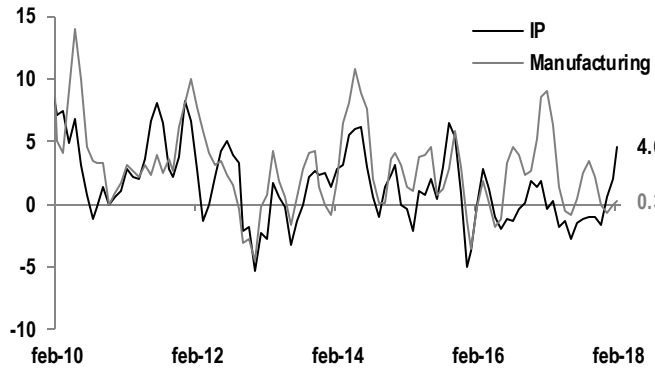
Industrial production: February 2018

% m/m sa

	Feb-18	Jan-18	Difference
Total	0.4	0.0	0.5
Mining	-1.9	2.2	-4.1
Utilities	0.8	2.1	-1.4
Construction	0.5	0.6	-0.1
Manufacturing	0.6	-0.6	1.2

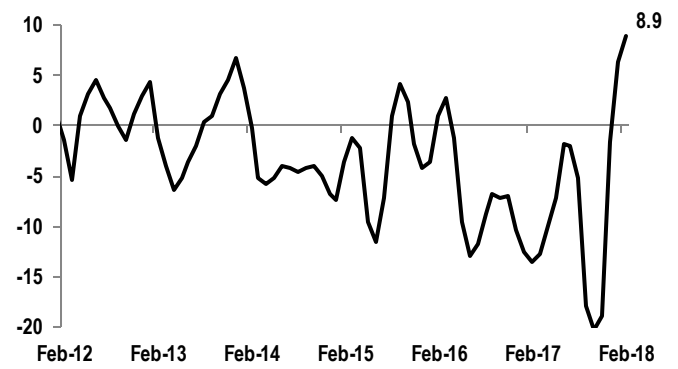
Source: INEGI, Banorte

Industrial production: Total and manufacturing output
% 3m/3m saar



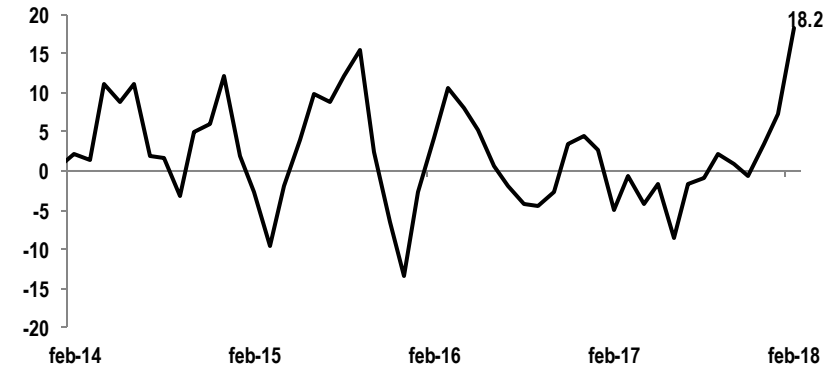
Source: Banorte; INEGI

Mining output
% 3m/3m saar



Source: Banorte; INEGI

Construction output
% 3m/3m saar



Source: INEGI, Banorte

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