

# Industrial production – Recovery in manufacturing output in May

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- **Industrial production (May): 0.3% yoy; Banorte: 0.8%; consensus: 0.8% (range: -0.7% to 1.9%); previous: 3.8%**
- **May’s growth was explained by the recovery in the manufacturing output, however it was highly offset by the recession in the mining sector**
- **In seasonally adjusted terms, IP expanded 0.1% m/m, given the 1.9% yoy increase in manufacturing production coupled with the 0.9% m/m fall in construction**
- **Looking ahead, we expect a manufacturing output to be the main driver of industrial production**

**Recovery in manufacturing output.** INEGI just published its IP report for May, where the headline index posted a 0.3% yoy expansion (non-seasonally adjusted figures), below our 0.8% forecast (consensus: 0.8% yoy). Taking a look at the breakdown, manufacturing output grew 2.8% yoy on the back of a 2.7% yoy growth in the food industry, as well as expansions in transportation equipment (6.5% yoy) and computer and communications goods production (10.1% yoy). However, there were significant declines in the manufacturing of oil and carbon based products (-18.6% yoy) as well as clothing (-3.5% yoy).

Construction output posted a 0.3% yoy expansion as a result of the 11% increase specialized work for construction. However, building projects and civil engineering construction projects declined 0.2% and 6.1% yoy, respectively. By contrast, mining output edged-down 6.6% yoy, given the 8.1% reduction in oil and gas production. Finally, utilities output edged-down 2.7% yoy (as shown in the table below)

**Industrial production: May 2018**

% yoy, nsa

	May-18	May-17	Jan-May, '18	Jan-May, '17
Total	0.3	0.6	0.2	-0.5
Mining	-6.6	-8.0	-6.0	-10.3
Utilities	-2.7	-0.4	0.3	0.1
Construction	0.3	-1.2	2.2	-0.9
Manufacturing	2.8	4.7	1.5	3.4

Source: INEGI

**In the monthly comparison IP posted 0.1% expansion.** Taking a look at the breakdown, an using seasonally adjusted figures, manufacturing output increased 1.9% m/m. By contrast, construction output fell 0.9% m/m, as a result of the 0.5% contraction in building projects. Moreover, mining activity posted a 0.7% m/m contraction (as shown in the following table).

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### Industrial production: May 2018

% m/m, sa

	May-18	Apr-18
Total	0.1	-0.4
Mining	-0.7	1.4
Utilities	-4.5	4.9
Construction	-0.9	-0.7
Manufacturing	1.9	-2.6

Source: INEGI

With these figures, industrial production posted a 0.9% 3m/3m annualized contraction, explained by the 4.9% 3m/3m saar expansion in manufacturing, coupled with the 6.6% 3m/3m saar contraction in construction and the 8.2% 3m/3m saar fall in mining

### Industrial production: May 2018

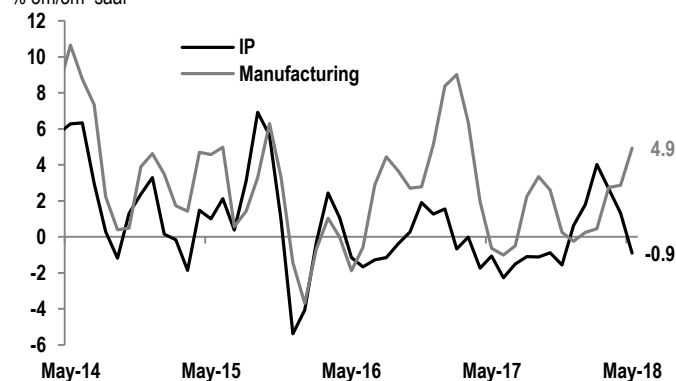
% 3m/3m saar

	May-18	Mar-18
Total	-0.9	2.7
Mining	-8.2	-1.0
Utilities	-3.8	0.4
Construction	-6.6	10.6
Manufacturing	4.9	2.7

Source: INEGI

### Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

**Looking ahead, we expect manufacturing output to be the main driver of industrial production.** We consider that the depreciation of the Mexican currency in June will result in a greater external demand for Mexican products, which in turn will have a positive impact on local manufacturing production and exports. In addition, mining output will continue dragging total industrial production, while construction activity will continue to expand, albeit at a more moderate pace.

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