

Industrial production – Rebound in April due to the Easter holiday

June 11, 2018

www.banorte.com
@ analisis_fundam

Francisco Flores
Economist, Mexico
frnacisco.flores.serrano@banorte.com

- **Industrial production (April): 3.8% yoy; Banorte: 4.4%; consensus: 3.6% (range: -0.5% to 6.4%); previous: -3.7%**
- **We highlight that IP in April was affected by a calendar effect which increased working days in the annual comparison.**
- **In seasonally adjusted terms, IP expanded 0.2% yoy, given the 0.1% yoy increase in manufacturing production**
- **Looking ahead, we expect a marginal recovery of industrial production during the second quarter of the year**

Moderation in manufacturing output. INEGI just published its IP report for April, where the headline index posted a 3.8% yoy expansion (non-seasonally adjusted figures), below our 4.4% forecast (consensus: 3.6% yoy). However, we highlight that IP in April was affected by a calendar effect which increased working days in the annual comparison due to the Easter holiday.

In seasonally adjusted terms, IP expanded 0.2% yoy, mostly explained by the 0.1% yoy increase in manufacturing output, which despite showing strength in the food industry (3% yoy) and the fabrication of metallic products (2.8% yoy), was dragged down by contractions in transportation equipment (-4.4% yoy) and oil and carbon-based production (-16.2% yoy).

Construction output expanded 3.8% yoy as a result of the 8.5% increase in building projects, and a 4% expansion in specialized work for construction. However, civil engineering construction projects declined 11.6% yoy. By contrast, mining output edged-down 6.2% yoy, given the 7% reduction in oil and gas production.

In the monthly comparison IP posted 0.4% contraction. Taking a look at the breakdown, manufacturing output decreased 2.3% m/m. In addition, construction output fell 0.6% m/m, as a result of the 2.9% contraction in the civil engineering projects. However, mining activity posted a 1.4% m/m expansion (as shown in the second table of the following page).

With these figures, industrial production posted a 1.4% 3m/3m annualized growth, explained by the 5.4% 3m/3m saar expansion in construction. Moreover, manufacturing output increased a 3.4% 3m/3m saar while mining output posted a 6.8% contraction, while (refer to the charts on the third page).

Document for distribution among public

Looking ahead, we expect a marginal recovery of industrial production. We believe that Mexican manufacturing production will pick up speed in the next couple of months. Specifically, we consider that the depreciation of the Mexican currency –which started in the second half of April–, 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, we expect expansion in construction output to continue throughout the second quarter, particularly reflected in building projects. Moreover, we believe that Mexico’s mining industry will continue to fall throughout the 2Q18. However, we expect that the positive effects coming from the construction output will over-compensate the negative impact of a lower mining activity.

Industrial production: April 2018

% yoy (nsa); % yoy (sa)

%yoy (nsa)	Apr-18	Apr-17	Jan-Apr, '18	Jan-Apr, '17
Total	3.8	-4.9	0.3	-0.8
Mining	-5.2	-9.3	-5.9	-10.9
Utilities	4.5	-1.4	1.2	0.2
Construction	6.7	-8.6	2.7	-0.9
Manufacturing	5.6	-1.8	1.2	3.1

% yoy (sa)

Total	0.2	-0.4
Mining	-6.2	-8.4
Utilities	2.8	0.5
Construction	3.8	-4.0
Manufacturing	0.1	5.0

Source: INEGI, Banorte

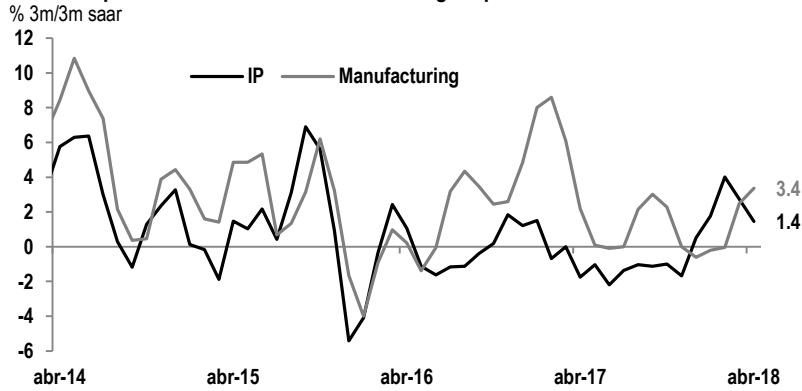
Industrial production: April 2018

% m/m sa

	Apr-18	Mar-18	Feb -18
Total	-0.4	-0.1	0.3
Mining	1.4	-2.1	-2.1
Utilities	4.9	-3.7	0.6
Construction	-0.6	-0.9	0.4
Manufacturing	-2.3	2.3	0.6

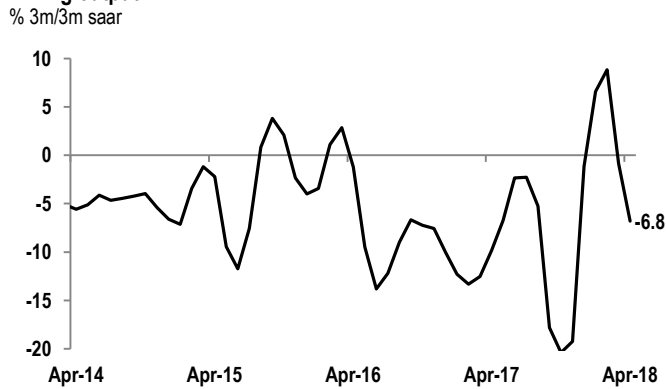
Source: INEGI, Banorte

Industrial production: Total and manufacturing output



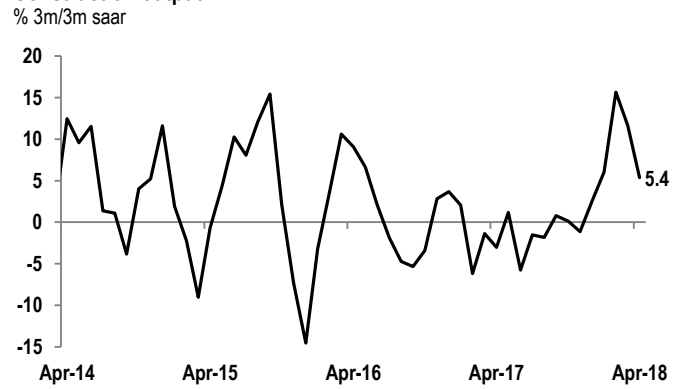
Source: INEGI

Mining output



Source: INEGI

Construction output



Source: INEGI

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
Katía Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
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