

Industrial production – Stagnant growth in 2016

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- **Industrial production (December): -0.6% yoy; Banorte-Ixe: -0.2%; consensus: -0.3% (range: -0.8% to 0.8%); previous: 1.5%**
- **Industrial production exhibited null growth in 2016, given the 6.4% yoy contraction in mining output, coupled with the 1.8% growth in construction, and the scant 1.3% expansion in manufacturing production**
- **In addition, the 0.6% decrease in December was explained by the 1.8% increase in both manufacturing output and construction, coupled with the recession of the mining industry**
- **With today's figures, the mining industry now adds 31 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output posted a 0.1% m/m reduction**
- **Looking ahead, we expect industrial production to show a marginal recovery in the first quarter of the year**

Stagnant growth in 2016. *INEGI* just published its IP report for December, where the headline index posted a 0.6% yoy contraction, below our -0.2% forecast (consensus: -0.3% yoy). With today's figures, industrial production exhibited null growth in 2016 explained by the 6.4% yoy contraction in mining output, coupled with the 1.8% growth in construction, and the scant 1.3% expansion in manufacturing production.

In December, manufacturing output increased 1.8% yoy. Moreover, construction output also grew 1.8%, as a result of the 4.3% growth in building projects, whereas public civil engineering construction projects declined 12.4% yoy, given the fiscal cuts implemented by the Federal Government.

In addition, mining activity fell 10.5% as a result of the significant contraction in Mexico's oil production, and the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 31 consecutive months in contraction. Finally, utilities increased 3.9%, as shown in the table on the next page.

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Industrial production: December 2016

% yoy

%yoy	Dec-16	Dec-15	Jan-Dec, '16	Jan-Dec, '15
Total	-0.6	0.2	0.0	1.0
Mining	-10.5	-4.1	-6.4	-4.6
Utilities	3.9	0.4	3.3	2.3
Construction	1.8	-1.8	1.8	2.5
Manufacturing	1.8	3.1	1.3	2.5
Contribution to growth	Dec-16	Dec-15	Difference	
Total	-0.6	0.2	-0.7	
Mining	-2.1	-0.9	-1.3	
Utilities	0.3	0.0	0.2	
Construction	0.4	-0.5	0.9	
Manufacturing	0.9	1.5	-0.6	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP posted a 0.1% m/m contraction. Taking a look at the breakdown, manufacturing output edged-up 0.6% m/m. However, construction activity fell 0.3% m/m, while mining declined 1.4% m/m. With these figures, industrial production posted a 0.7% 3m/3m annualized growth in 4Q16, explained by the 10.4% fall in mining output, coupled with manufacturing's 4.6% 3m/3m saar growth (refer to the charts on the third page).

Looking ahead, we expect a marginal recovery in industrial production. We continue to believe that Mexico's manufacturing industry will recover in the coming months. We expect that the further depreciation of the Mexican currency, stemming from the results of the US election, will benefit exports in the first quarter of the year. In addition, the uncertainty around the commercial relationship between Mexico and the US will probably boost the flow of exports during this period.

However, we also believe that construction output will continue to decelerate. As we have mentioned throughout our publications, the MXN\$76.4 billion (around US\$ 3.5 billion) fiscal cut that the Federal Government will implement in 1Q17 will affect the construction of public infrastructure projects, which will also offset the upward trend in private construction projects during the first quarter of the year. All in all, we expect a marginal recovery in industrial production in 1Q17.

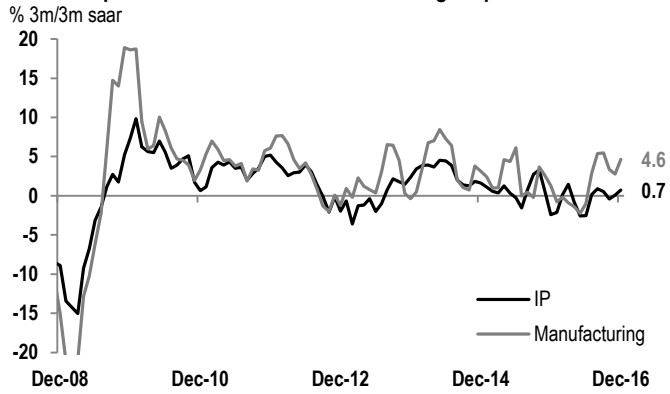
Industrial production: December 2016

% m/m sa

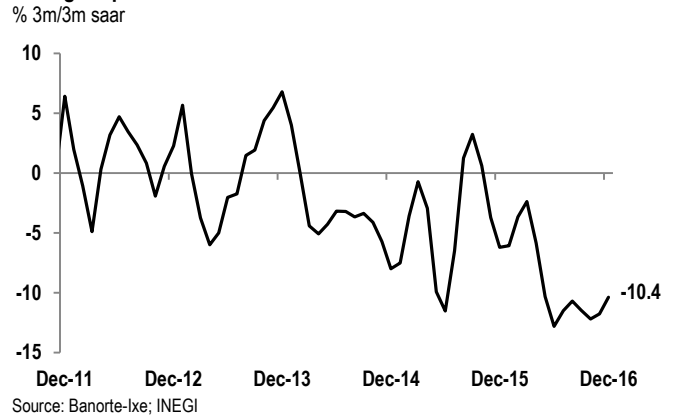
%m/m sa	Dec-16	Nov-16	Difference
Total	-0.1	0.0	-0.1
Mining	-1.4	-1.6	0.2
Utilities	0.5	0.1	0.4
Construction	-0.3	-0.7	0.4
Manufacturing	0.6	0.8	-0.2

Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output



Mining output



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