

Industrial production – Manufacturing output maintains a downward trend

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- **Industrial production (July): -1% yoy; Banorte-Ixe: -0.3%; consensus: -0.2% (range: -1.3% to 0.4%); previous: 0.5%**
- **Manufacturing production (July): -0.2% yoy; Banorte-Ixe: -0.4%; consensus: 1.2% (range: -0.4% to 2.1%); previous: 1.4%**
- **IP's contraction in July was explained by the 0.2% reduction in manufacturing output, coupled with the 6.3% contraction in mining activity**
- **With today's figures, the mining industry now adds 26 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output increased 0.3% m/m, while manufacturing output expanded 0.8% m/m...**
- **...however, we believe that the higher growth in seasonally-adjusted figures respond to factors of a statistical nature, given that the second quarter figures were negatively affected by seasonal effects difficult to correct**
- **Looking ahead, we expect industrial production to show a marginal growth**

July's contraction explained by manufacturing output's downward trend. INEGI just published its IP report for July, where the headline index posted a 1% yoy contraction, below our -0.3% forecast (consensus: -0.2% yoy). Taking a look at the breakdown, manufacturing output fell 0.2% yoy (Banorte-Ixe: -0.4%; consensus: 1.2%). Moreover, construction output declined 0.1%, as a result of the 3.3% growth in building projects, whereas public civil engineering construction projects declined 16.6% yoy, given the fiscal cuts implemented by the Federal Government. Moreover, mining activity fell 6.3% as a result of the significant contraction in Mexico's oil production. With today's figure, mining activity now adds 26 consecutive months in contraction. Finally, utilities increased 5.9%, as shown in the table on the next page.

In seasonally adjusted terms, IP increased 0.3% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.8% m/m. However, construction activity fell 0.3% m/m, while mining declined 0.4% m/m. With these figures, industrial production is up by 0.4% 3m/3m saar from -2% in 2Q16. Moreover, manufacturing production edged-up to 2.3% 3m/3m saar from -0.7% in 2Q16, while construction output posted a 1% growth (refer to the charts on the next page).

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In this context, we believe that July's 0.8% m/m increase in manufacturing output may be overestimating the real performance of manufacturing activity, given that the seasonally adjusted figures underestimated the real performance of the sector during the second quarter. As Banxico mentioned in the minutes of their last monetary policy meeting, *INEGI's* seasonally-adjusted figures are responding to factors of a statistical nature, given that they have been affected by seasonal effects difficult to correct.

Looking ahead, we expect a marginal recovery in industrial production.

Today's report shows the significant deceleration in Mexico's manufacturing output (nsa figures), 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.

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: July 2016

%yoy	Jul-16	Jul-15	Jan-Jul, '16	Jan-Jul, '15
Total	-1.0	1.0	0.4	1.1
Mining	-6.3	-5.6	-4.1	-6.5
Utilities	5.9	3.5	4.4	4.3
Construction	-0.1	4.4	1.9	3.9
Manufacturing	-0.2	2.0	1.1	2.9
Contribution to growth	Jul-16	Jul-15	Difference	
Total	-1.0	1.0	-1.9	
Mining	-1.3	-1.2	-0.1	
Utilities	0.4	0.2	0.2	
Construction	0.0	1.0	-1.0	
Manufacturing	-0.1	1.0	-1.1	

Source: INEGI, Banorte-ixe

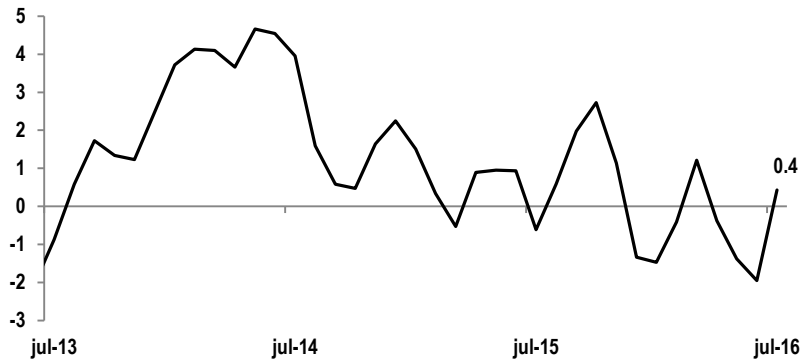
Industrial production: July 2016

%m/m sa	Jul-16	Jun-16	Difference
Total	0.3	0.1	0.2
Mining	-0.4	-0.8	0.4
Utilities	0.4	1.1	-0.7
Construction	-0.3	0.2	-0.5
Manufacturing	0.8	0.6	0.2

Source: INEGI, Banorte-lxe

Industrial production

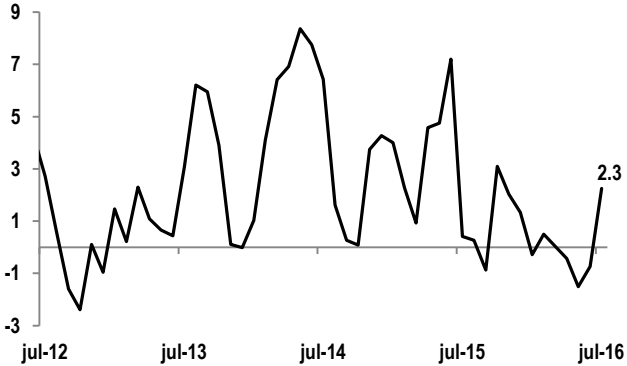
% 3m/3m saar



Source: Banorte-lxe; INEGI

Manufacturing production

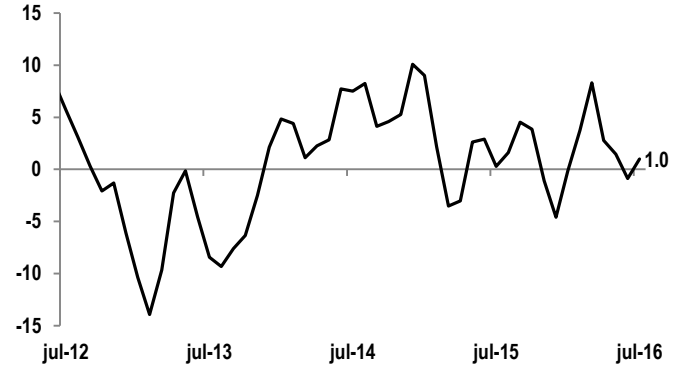
% 3m/3m saar



Source: Banorte-lxe; INEGI

Construction output

% 3m/3m saar



Source: Banorte-lxe; INEGI

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