

Industrial production - Mining output affected by hurricane season

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- **Industrial production (September): -1.2% yoy; Banorte-Ixe: -0.7%; consensus: -0.9% (range: -2.4% to -0.1%); previous: -0.1%**
- **The 1.2% contraction in September was explained by the 15.1% yoy decline in mining output, as a result of the hurricane season which affected oil production in the Gulf of Mexico**
- **In seasonally adjusted terms, industrial production fell 0.4% m/m given the 6.2% m/m contraction in mining**
- **Looking ahead, we expect a further deceleration of industrial production during 4Q17, as a result of lower construction and mining output**

Strong decline in mining output. *INEGI* just published its IP report for September, where the headline index posted a 1.2% yoy contraction, below our -0.7% forecast (consensus: -0.9% yoy). The reduction in industrial production was mostly explained by the 15.1% yoy contraction in mining output, given the reduction of oil production in the Gulf of Mexico derived from the hurricane season and the earthquake of September 7, which affected the refining capacity in Salina Cruz, Oaxaca. Regarding hurricane season, we highlight the impact that *Harvey* and *Katia* had on Mexico's refining capacity, which derived in a significant reduction in PEMEX oil production, given that inventories were already at maximum levels.

In addition, construction posted a marginal 0.1% yoy expansion, which was explained by the 3.6% growth in building projects, whereas public civil engineering construction projects declined 15.4% yoy, given the loss of working days after the earthquakes. By contrast, manufacturing output increased 2.8% yoy. Year-to-date, manufacturing output adds a 3.4% expansion.

In seasonally adjusted terms, IP fell 0.4% m/m. Taking a look at the breakdown, manufacturing output posted a marginal 0.1% m/m reduction. In addition, construction output expanded 0.8% m/m, as a result of the 2.9% increase in building projects. However, civil engineering construction projects declined 7%. In addition, mining activity fell 6.2% m/m.

With these figures, industrial production posted a 2.2% 3m/3m annualized contraction, explained by the 18.4% fall in mining output. By contrast, manufacturing production increased 3.1%, whereas construction posted a marginal 1% 3m/3m saar expansion (refer to the charts on the third page).

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Looking ahead, we expect a deceleration of industrial production. As we have mentioned throughout our publications, manufacturing production growth during the first half of the year was mostly explained by the uncertain trade relation with the US, which fostered a higher flow of exports, hedging a scenario of future tariffs.

In recent days, market participants have discounted a higher probability that the US will exit NAFTA, which has reflected in the behavior of the Mexican currency. In this context, we consider that external demand –particularly from the US– for Mexican manufactured products has increased during the fourth quarter of the year, following the depreciation of the peso, which will have a positive impact on Mexican manufacturing production.

By contrast, the austerity program that the Federal Government has implemented will affect construction of public infrastructure projects. Similarly, we believe that the uncertainty generated by the political environment will continue to discourage private investment projects.

Moreover, we believe that Mexico’s mining industry will continue to fall throughout the year, as a result of Government’s fiscal consolidation plan which has affected Mexico’s drilling projects. All in all, we expect that the negative effects coming from the lower mining and construction output will overcompensate the positive impact of a higher manufacturing production. As a result, we expect a deceleration of industrial production in the fourth quarter of the year.

Industrial production: September 2017

% yoy; %-pts

%yoy	Sep-17	Sep-16	Jan-Sep, '17	Jan-Sep, '16
Total	-1.2	-1.8	-0.5	0.5
Mining	-15.1	-5.8	-10.1	-3.1
Utilities	1.4	-1.2	-0.3	0.4
Construction	0.1	-2.7	-1.2	1.9
Manufacturing	2.8	0.1	3.4	1.3

Contribution to growth	Sep-17	Sep-16	Difference
Total	-1.2	-1.8	0.6
Mining	-2.8	-1.1	-1.7
Utilities	0.1	-0.1	0.1
Construction	0.0	-0.7	0.7
Manufacturing	1.5	0.0	1.4

Source: INEGI, Banorte-ixe

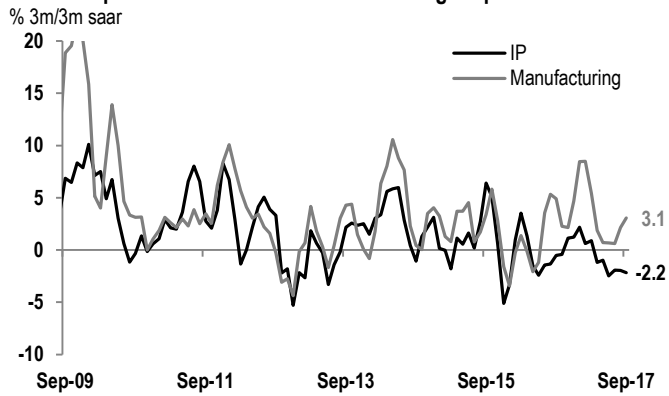
Industrial production: September 2017

% m/m sa

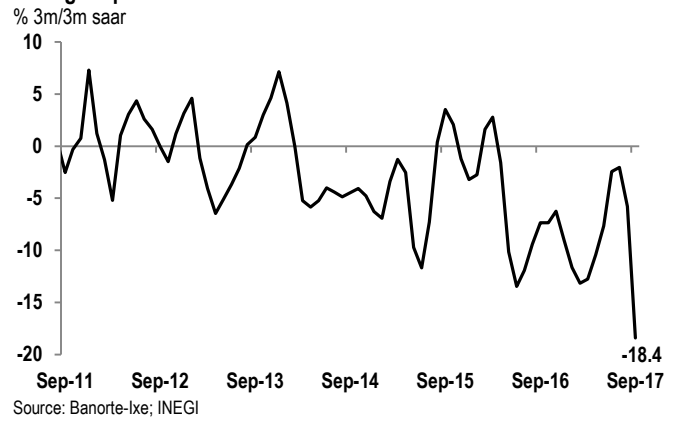
	Sep-17	Aug-17	Difference
Total	-0.4	0.2	-0.6
Mining	-6.2	-2.4	-3.9
Utilities	1.8	-0.7	2.5
Construction	0.8	0.0	0.8
Manufacturing	-0.1	0.5	-0.6

Source: INEGI, Banorte-ixe

Industrial production: Total and manufacturing output



Mining output



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