

Industrial production – Construction and mining output plunges further

June 9, 2017

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Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

- **Industrial production (April): -4.4% yoy; Banorte-Ixe: -2.3%; consensus: -2.1% (range: -3% to 1%); previous: 3.4%**
- **The 4.4% contraction in April was partially explained by a calendar effect derived from the *Holy Week*, which subtracted working days to the annual comparison**
- **Controlling for this calendar effect, industrial production fell 0.4% yoy in April**
- **In seasonally adjusted terms, manufacturing production increased 0.6% m/m, while construction output posted a 1.7% contraction, and mining activity decreased 0.9% m/m**
- **With today's figures mining activity now adds 35 consecutive months in contraction**
- **Looking ahead, we expect a marginal recovery of industrial production**

IP maintained its downward trend. INEGI just published its IP report for March, where the headline index posted a 4.4% yoy contraction, below our -2.3% forecast (consensus: -2.1% yoy). However, April's fall was partially explained by a calendar effect derived from the *Holy Week*, which subtracted working days to the annual comparison. Controlling for this calendar effect, industrial production was fell 0.4% yoy.

Taking a look at the breakdown, and analyzing the calendar-adjusted figures, manufacturing output increased 5% yoy. However, construction output fell 2.7%, as a result of the 3.4% contraction in building projects, whereas public civil engineering construction projects declined 7.6% yoy, given the fiscal cuts implemented by the Federal Government.

In addition, mining activity fell 9.6% as a result of the significant contraction in Mexico's oil production, as well as the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 35 consecutive months in contraction. Finally, utilities decreased 1.3%, as shown in the table on the following page.

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Industrial production: April 2017

% yoy

	Apr-17	Apr-16	Jan-Apr, '17	Jan-Apr, '16
Total	-4.4	1.6	-0.8	0.4
Mining	-9.6	-3.5	-10.7	-3.3
Utilities	-3.0	4.3	-1.1	1.8
Construction	-6.5	3.5	-0.6	1.8
Manufacturing	-1.7	2.4	3.1	1.1
%yoy calendar effect	Apr-17	Apr-16	Jan-Apr, '17	Jan-Apr, '16
Total	-0.4	-1.2	-0.3	0.1
Mining	-9.6	-3.5	-10.0	-4.1
Utilities	-1.3	2.5	-1.1	1.8
Construction	-2.7	0.0	-0.4	1.7
Manufacturing	5.0	-1.9	3.8	0.7

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP fell 0.3% m/m in April. Taking a look at the breakdown, manufacturing output posted a 0.6% m/m expansion, while construction output decreased 1.7% m/m. In addition, mining activity fell 0.9% m/m.

With these figures, industrial production posted a 1.1% 3m/3m annualized contraction, explained by the 6.6% fall in mining output, despite manufacturing's 2.4% 3m/3m saar growth (refer to the charts below).

Looking ahead, we expect industrial production to show a marginal recovery. We continue to believe that Mexico's manufacturing industry will recover in the coming months. We expect that the still depreciated Mexican peso will continue to benefit exports in the second 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, manufacturing's growth will be partially offset by the contraction in construction output. As we have mentioned throughout our publications, the fiscal cut that the Federal Government has implemented will affect the construction of public infrastructure projects. In addition, we believe that the uncertainty generated by the impact of Trump's economic policies to the Mexican economy will discourage private construction 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. All in all, we expect a marginal recovery in industrial production in the second quarter of the year.

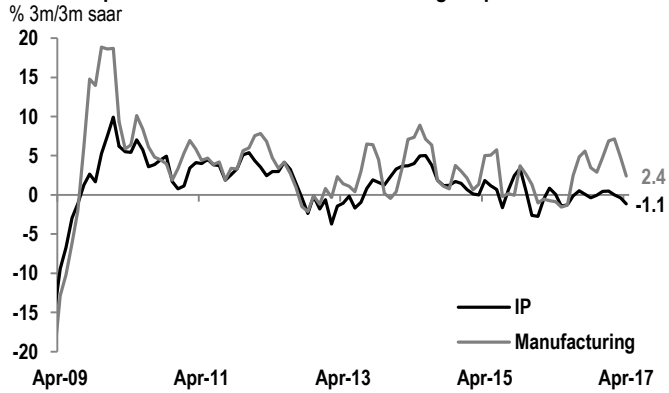
Industrial production: April 2017

% m/m sa

	Apr-17	Mar-17	Difference
Total	-0.3	-0.2	-0.2
Mining	-0.9	-0.5	-0.4
Utilities	-0.3	0.6	-1.0
Construction	-1.7	-0.5	-1.2
Manufacturing	0.6	-0.2	0.8

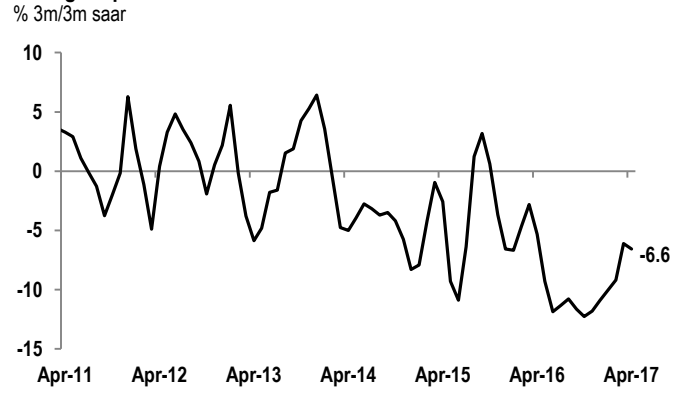
Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output



Source: Banorte-lxe; INEGI

Mining output



Source: Banorte-lxe; INEGI

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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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2759
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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – 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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247

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