Industrial production – July's 0.7% yoy growth explained by construction output

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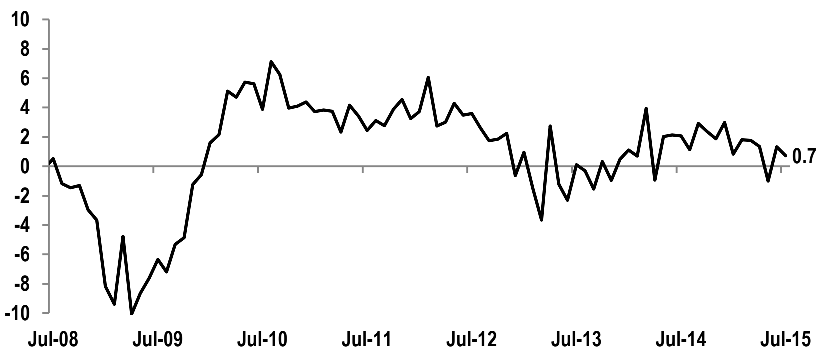
- **Industrial production (July): 0.7% yoy; Banorte-Ixe: 0%; consensus: 0.5% (range: -0.3% to 1.5%); previous: 1.3%**
- **IP's growth was partially explained by the stronger construction output**
- **Moreover, manufacturing output expanded a scant 1.3% yoy (Banorte-Ixe: 1.6%; consensus: 2.5% yoy), while mining activity fell 5.3% yoy**
- **In seasonally adjusted terms, industrial output increased 0.2% m/m, on the back of the 0.5% m/m contraction in manufacturing production, along with the 1.5% m/m growth in construction activity**
- **Mining activity now adds sixteen consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

July's growth explained by the stronger construction output. *INEGI* just published its IP report for July, where the headline index increased 0.7% yoy (consensus: 0.5% yoy; Banorte-Ixe: 0%). IP's growth was partially explained by the 4.3% yoy growth in construction output. Moreover, manufacturing production grew a scant 1.3% yoy (Banorte-Ixe: 1.6%; consensus: 2.5% yoy), while mining activity declined 5.3%, as a result of the significant contraction in Mexico's oil production. With today's report, the mining industry now adds sixteen consecutive months in contraction. Finally, utilities edged-up 4% yoy, as shown in the table on the following page.

Industrial production: July 2015
% yoy



Source: INEGI, Banorte-Ixe

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Industrial production: July 2015

%yoy	Jul-15	Jul-14	Jan-Jul, '15	Jan-Jul, '14
Total	0.7	2.1	1.0	1.6
Mining	-5.3	-1.9	-6.5	-0.8
Utilities	4.0	0.6	2.8	1.7
Construction	4.3	3.2	3.7	-0.5
Manufacturing	1.3	3.6	2.8	3.5
%yoy, adjusted by calendar effect	**Jul-15**	**Jul-14**	**Jan-Jul, '15**	**Jan-Jul, '14**
Total	0.7	2.0	1.0	1.6
Mining	-5.3	-1.9	-6.5	-0.8
Utilities	4.0	0.6	2.8	1.7
Construction	4.5	3.0	3.7	-0.4
Manufacturing	1.2	3.5	2.8	3.6
Contribution to growth	**Jul-15**	**Jul-14**	**Difference**	
Total	0.7	2.1	-1.4	
Mining	-1.1	-0.4	-0.7	
Utilities	0.3	0.0	0.2	
Construction	0.9	0.7	0.3	
Manufacturing	0.7	1.8	-1.1	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 0.2% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.5% m/m. Moreover, construction activity increased 1.5% over the previous month, while mining production posted a 0.5% m/m expansion. With these figures, manufacturing output is down 1% 3m/3m saar, from +3.9% in 2Q15, as shown in the chart below.

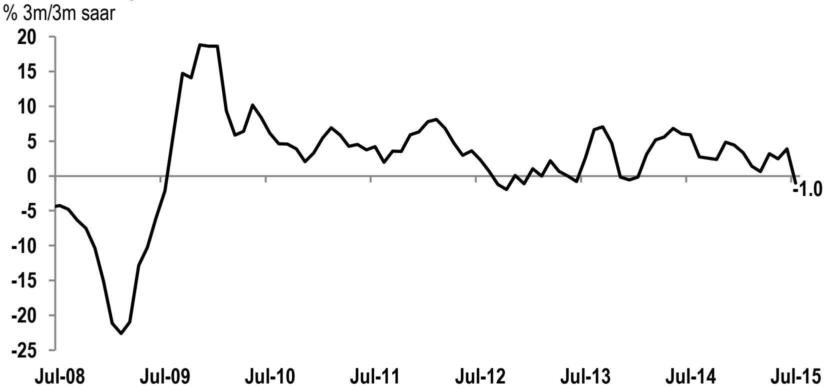
Industrial production: July 2015

	Jul-15	Jun-15	Difference
Total	0.2	0.2	0.0
Mining	0.5	1.2	-0.7
Utilities	1.4	0.8	0.5
Construction	1.5	1.6	-0.1
Manufacturing	-0.5	0.0	-0.5

Source: INEGI, Banorte-Ixe

Manufacturing production

% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect industrial production to gain momentum. Despite the significant deceleration in manufacturing output during the last three months, other indicators show that the manufacturing sector will show a more visible recovery in the next months. In particular, Mexico's vehicle production increased 7.7% yoy, while manufacturing exports have shown an upward trend in the first figures of 3Q15. In this regard, we believe that the manufacturing industry will strengthen in the second half of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that construction output will continue to recover in the second half of the year, given the upward trend in private consumption and investment. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico's oil production– will continue limiting the recovery of industrial activity in the third quarter of 2015.

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