

Industrial production maintains a downward trend in October

December 13, 2016

www.banorte.com
www.ixc.com.mx
@ analisis_fundam

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

- **Industrial production (October): -1.4% yoy; Banorte-Ixe: -1.6%; consensus: -1.4% (range: -1.8% to -0.3%); previous: -1.3%**
- **IP's contraction during October was explained by the fall of manufacturing output and the recession of the mining industry**
- **With today's figures, the mining industry now adds 29 consecutive months in contraction**
- **In addition, construction output posted a 2.5% yoy growth; however, civil engineering construction declined 15.3% yoy**
- **In seasonally adjusted terms, industrial output grew 0.1% m/m**
- **Looking ahead, we expect industrial production to show a marginal recovery in the coming months**

Industrial production continues to fall. *INEGI* just published its IP report for October, where the headline index posted a 1.4% yoy contraction, marginally above our -1.6% forecast (consensus: -1.4% yoy). Year-to-date, industrial production has fallen 0.1%.

Taking a look at the breakdown, manufacturing output fell 0.6% yoy (Banorte-Ixe: 0%). Moreover, construction output grew 2.5%, as a result of the 6.4% growth in building projects, whereas public civil engineering construction projects declined 15.3% yoy, given the fiscal cuts implemented by the Federal Government.

Also, mining activity fell 9% 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 29 consecutive months in contraction. Finally, utilities increased 1.8%, as shown in the table on the next page.

In seasonally adjusted terms, IP grew 0.1% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.3% m/m. In addition, construction activity grew 0.8% m/m, while mining declined 0.1% m/m. With these figures, industrial production posted a 1.1% 3m/3m saar contraction, explained by the 12.1% fall in mining output. Moreover, manufacturing production increased 2.4% 3m/3m saar from 4.2% in 3Q16 (refer to the charts on the third page).

Document for distribution among public

Looking ahead, we expect a marginal recovery in industrial production. We continue to believe that Mexico's manufacturing industry will show a recovery 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 final quarter of 2016. Moreover, the uncertainty around the commercial relationship between Mexico and the US will probably boost the flow of exports at the end of the current year and during 1Q17.

However, we also believe that construction output will continue to decelerate. As we have mentioned throughout our publications, the fiscal cuts implemented by the Federal Government, which have affected the construction of public infrastructure projects, will partially offset the upward trends in private construction projects in the last quarter of the year.

Industrial production: October 2016

% yoy

	Oct-16	Oct-15	Jan-Oct, '16	Jan-Oct, '15
Total	-1.4	0.1	-0.1	1.2
Mining	-9.0	-3.7	-5.7	-4.6
Utilities	1.8	2.7	3.2	2.3
Construction	2.5	1.0	1.6	3.4
Manufacturing	-0.6	1.0	0.9	2.6
Contribution to growth	Oct-16	Oct-15	Difference	
Total	-1.4	0.1	-1.6	
Mining	-1.8	-0.8	-1.0	
Utilities	0.1	0.2	-0.1	
Construction	0.6	0.2	0.3	
Manufacturing	-0.3	0.5	-0.8	

Source: INEGI, Banorte-Ixe

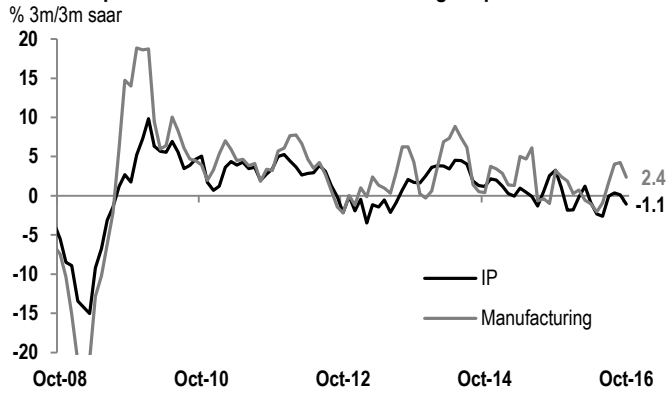
Industrial production: October 2016

% m/m sa

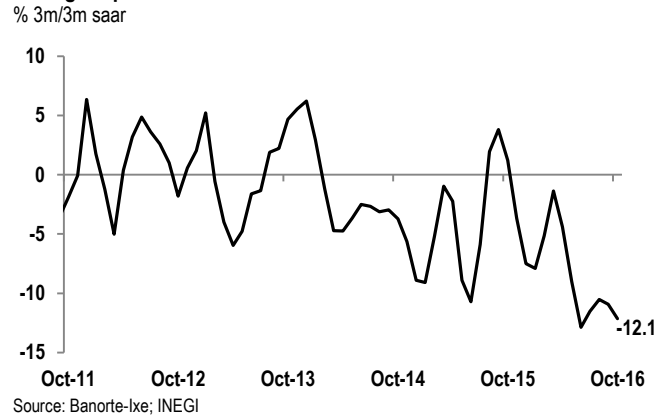
	Oct-16	Sep-16	Difference
Total	0.1	0.1	0.0
Mining	-0.1	-1.4	1.4
Utilities	0.2	-0.2	0.4
Construction	0.8	1.9	-1.1
Manufacturing	0.3	-0.2	0.5

Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output



Mining output



Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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
Marisol Huerta Mondragón	Equity Research Analyst – Food / Beverages / Specialized Commerce	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
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

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.a.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

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