

## Industrial production – Slight detour in Manufacturing’s growth trend

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- **Industrial production (January): 0.3% yoy; Banorte-Ixe: 2.1%; consensus: 2.1% (range: 0.5% to 3.6%); previous: 3%**
- **Manufacturing production increased 1.2% yoy, below our 3.9% estimate**
- **Construction output expanded 4.2% yoy, while mining activity fell 5.9% yoy**
- **In seasonally adjusted terms, industrial output decreased 0.4% m/m, on the back of the 0.1% m/m fall in manufacturing production, and a 1.5% m/m contraction in construction activity**
- **Mining activity now adds ten consecutive months in contraction**
- **Looking ahead, we expect industrial production to continue gaining momentum**

**Disappointing 1.2% yoy growth in manufacturing output.** INEGI just published its IP report for January, where the headline index increased a scant 0.3% yoy. Taking a look at the breakdown, manufacturing output grew 1.2% yoy, below our 3.9% estimate. However, we highlight that part of the deceleration in manufacturing production was simply explained by a calendar effect, given that Jan’15 had an additional weekend day. Controlling by this calendar effect, manufacturing production increased 2.3% yoy. Moreover, the construction sector showed, for the eighth time in 20 months, a positive rate of expansion (4.2% yoy). However, mining activity declined 5.9% adding ten consecutive months in contraction. Finally, utilities expanded 3.2% yoy, as shown in the following table.

### Industrial production: January 2015

%yoy	Jan-15	Jan-14
Total	0.3	1.1
Mining	-5.9	-0.7
Utilities	3.1	0.9
Construction	4.2	-2.0
Manufacturing	1.2	3.3
<b>%yoy (adjusted by calendar effect)</b>		
Total	0.7	1.2
Mining	-5.9	-0.7
Utilities	3.1	0.9
Construction	4.4	-1.7
Manufacturing	2.3	3.0
<b>Contribution to growth</b>		
Total	0.3	1.1
Mining	-1.4	-0.2
Utilities	0.2	0.1
Construction	0.9	-0.4
Manufacturing	0.6	1.6

Source: INEGI, Banorte-Ixe

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**In seasonally adjusted terms, IP decreased 0.4% m/m in January.** Manufacturing output fell 0.1% m/m, while construction activity edged down 1.5% over the previous month. Moreover, mining production posted a 0.5% m/m contraction. In this regard, we highlight that mining activity is down 9.1% 3m/3m saar in January, as shown in the chart below on the left. However, construction and manufacturing output have shown a significant expansion adding a 6.4% and a 3.8% 3m/3m saar growth, respectively (refer to the chart on the right).

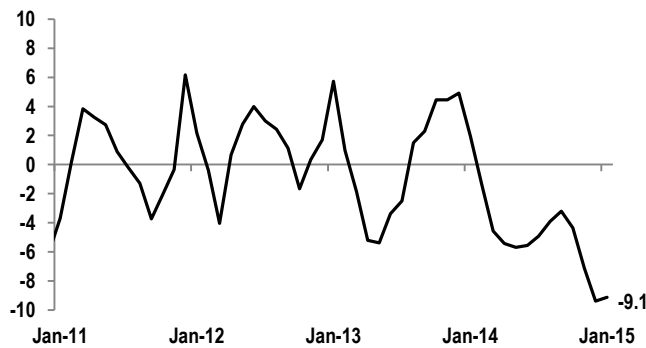
**Industrial production: January 2015**

%m/m sa	Jan-15	Dec-14	Difference
Total	-0.4	-0.3	-0.1
Mining	-0.5	-0.8	0.3
Utilities	0.4	1.7	-1.3
Construction	-1.5	1.5	-3.0
Manufacturing	-0.1	-1.7	1.6

Source: INEGI, Banorte-Ixe

**Mining production**

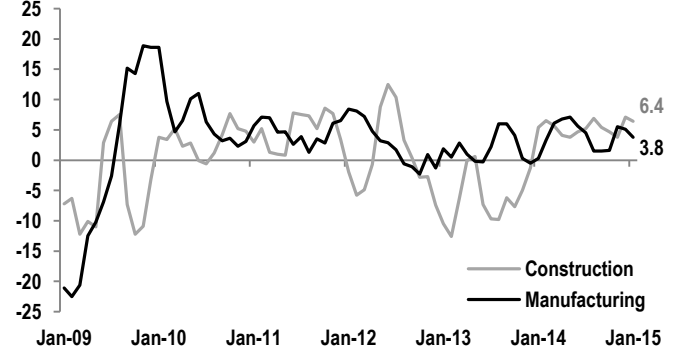
% 3m/3m saar



Source: Banorte-Ixe; INEGI

**Manufacturing and construction output**

% 3m/3m saar



Source: Banorte-Ixe; INEGI

**Looking ahead, we expect industrial production to continue gaining momentum.** The deceleration in manufacturing output during January was mainly explained by the decline in textile products, clothing, and production of petroleum products. In the latter case, the sharp drop in international oil prices has also affected the price of the products derived from this input, which has discouraged domestic production. However, other sub-sectors within manufacturing industry have maintained an upward trend, like Mexico's production of electrical appliances, machinery and equipment, and vehicles.

In this regard, we believe that the recovery of the manufacturing industry is on the way and that will strengthen in the first half of the year given: (1) A significant recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports have shown solid growth rates; (3) the recent and significant depreciation of the Mexican currency will translate into stronger growth dynamics for the manufacturing exports; and (4) the recent Mexican car industry figures remain strong. In this regard, we believe that the recovery of both manufacturing and construction industries will continue in 1H15. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico's oil production– will limit the recovery of industrial activity in the first quarter of 2015.

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