Mining output continues to drag down industrial production

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- **Industrial production (August): -0.5% yoy; Banorte-Ixe: -0.4%; consensus: -0.8% (range: -1.3% to -0.2%); previous: -1.6%**
- **The 0.5% contraction in August was explained by the 9.7% yoy decline in mining output**
- **With today's figures mining activity now adds 39 consecutive months in contraction**
- **In seasonally adjusted terms, industrial production increased 0.3% as a result of the 0.5% m/m expansion in manufacturing output**
- **Looking ahead, we expect a further deceleration of industrial production as a result of lower manufacturing and construction output**

Strong decline in mining output. *INEGI* just published its IP report for August, where the headline index posted a 0.5% yoy contraction, marginally below our -0.4% forecast (consensus: -0.8% yoy). The reduction in industrial production was mostly explained by the 9.7% yoy contraction in mining output, as a result of the significant fall in Mexico's oil production, as well as the lower investment in Mexico's drilling projects. With today's figure, mining activity now adds 39 consecutive months in contraction.

In addition, construction posted a 1.6% yoy contraction, which was explained by the 2.5% reduction in building projects, whereas public civil engineering construction projects declined 2.4% yoy, given the austerity program implemented by the Federal Government (refer to the table on the following page).

By contrast, manufacturing output increased 3.3% yoy, as a result of the 14.4% expansion in machinery and equipment, coupled with the 9.3% growth in vehicle production. Year-to-date, manufacturing output adds a 3.4% expansion.

In seasonally adjusted terms, IP increased 0.3% m/m. Taking a look at the breakdown, manufacturing output posted a 0.5% m/m expansion. In addition, construction output expanded 0.3% m/m, as a result of the 1.4% increase in building projects. However, mining activity fell 2.3% m/m. With these figures, industrial production posted a 2.4% 3m/3m annualized contraction, explained by the 7.7% fall in mining output. In addition, manufacturing production increased 1.1%, whereas construction declined 3.9% 3m/3m saar.

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. Given that there is a consensus that the renegotiation of NAFTA will maintain the *status quo*, it is likely that the external demand for Mexican manufacturing exports, -particularly within the US- has diminished. As a result, we believe that both manufacturing production and exports will decelerate during the third and fourth quarter of the year.

In addition, 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 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 which has affected Mexico's drilling projects. All in all, we expect a deceleration of industrial production in the third and fourth quarter of the year.

Industrial production: August 2017
% yoy; %-pts

%yoy	Aug-17	Aug-16	Jan-Aug, '17	Jan-Aug, '16
Total	-0.5	0.3	-0.4	0.2
Mining	-9.7	-8.5	-9.9	-4.9
Utilities	-0.6	3.2	-1.1	3.7
Construction	-1.6	-0.2	-0.7	1.4
Manufacturing	3.3	3.7	3.4	1.2
%yoy calendar effect	**Aug-17**	**Aug-16**	**Jan-Aug, '17**	**Jan-Aug, '16**
Total	-0.6	-0.9	-0.3	-0.1
Mining	-9.7	-8.5	-9.5	-5.3
Utilities	-0.6	3.2	-1.1	3.7
Construction	-1.8	-1.1	-0.7	1.3
Manufacturing	3.2	1.3	3.6	0.9
Contribution to growth	**Aug-17**	**Aug-16**	**Difference**	
Total	-0.5	0.3	-0.8	
Mining	-1.8	-1.8	-0.1	
Utilities	0.0	0.2	-0.3	
Construction	-0.4	0.0	-0.3	
Manufacturing	1.7	1.9	-0.2	

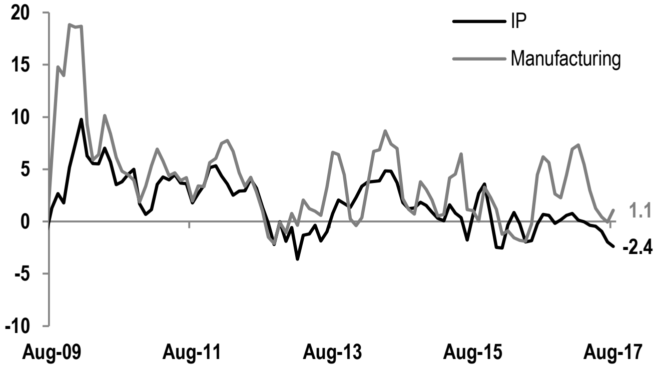
Source: INEGI, Banorte-Ixe

Industrial production: August 2017
% m/m sa

	Aug-17	Jul-17	Difference
Total	0.3	-0.9	1.2
Mining	-2.3	-1.9	-0.4
Utilities	-0.5	0.8	-1.3
Construction	0.3	-1.8	2.1
Manufacturing	0.5	0.3	0.2

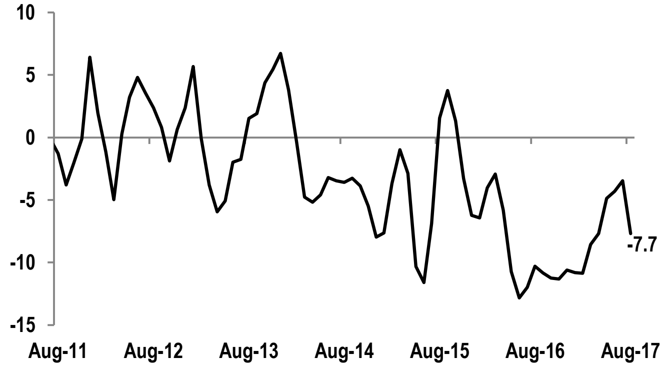
Source: INEGI, Banorte-Ixe

Industrial production: Total and manufacturing output
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Mining output
% 3m/3m saar



Source: Banorte-Ixe; INEGI

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