Industrial production – Manufacturing output leads today's 1.9% yoy expansion

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- **Industrial production (February): 1.6% yoy; Banorte-Ixe: 1.9%; consensus: 1.6% (range: -0.1% to 2.7%); previous: 0.3%**
- **Manufacturing production increased 4% yoy, slightly above our 3.7% yoy estimate**
- **Construction output expanded a scant 1.1% yoy, while mining activity fell 3.8% yoy**
- **In seasonally adjusted terms, industrial output increased 0.2% m/m, on the back of the 1% m/m expansion in manufacturing production, along with the 2.2% m/m contraction in construction activity**
- **Mining activity now adds eleven consecutive months in contraction**
- **Looking ahead, we expect industrial production to continue gaining momentum**

Manufacturing output showed a stronger performance. *INEGI* just published its IP report for February, where the headline index increased 1.6% yoy. Taking a look at the breakdown, manufacturing output grew 4% yoy, slightly above our 3.7% estimate. Moreover, the construction sector posted a 1.1% yoy expansion. However, mining activity declined 3.8% adding eleven consecutive months in contraction. Finally, utilities increased 3.8% yoy, as shown in the following table.

Industrial production: February 2015

%yoy	Feb-15	Feb-14	Jan-Feb, '15	Jan-Feb, '14
Total	1.6	0.7	1.2	0.9
Mining	-3.8	-0.4	-4.8	-0.5
Utilities	3.8	0.6	3.4	0.8
Construction	1.1	-2.5	3.6	-2.3
Manufacturing	4.0	2.7	2.7	3.0
Contribution to growth	**Feb-15**	**Feb-14**	**Difference**	
Total	1.6	0.7	0.9	
Mining	-0.8	-0.1	-0.7	
Utilities	0.2	0.0	0.2	
Construction	0.2	-0.6	0.8	
Manufacturing	2.0	1.3	0.7	

Source: INEGI, Banorte-Ixe

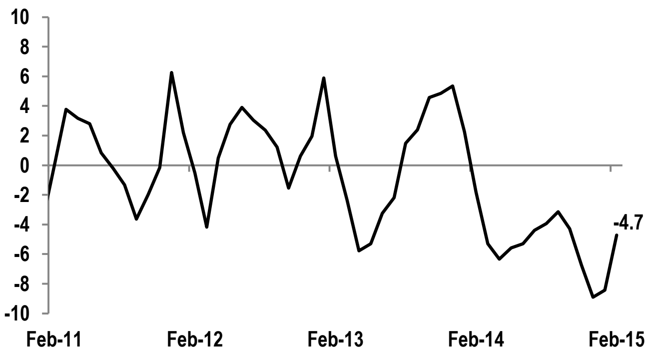
In seasonally adjusted terms, IP increased 0.2% m/m in February. Manufacturing output edged-up 1% m/m, while construction activity fell 2.2% over the previous month. Moreover, mining production posted a significant 1.5% m/m expansion. In this regard, we highlight that mining activity is down 4.7% 3m/3m saar in February, as shown in the chart below on the left. Moreover, construction and manufacturing output have been trending down in the first two months of the year adding a 1.7% and a 0.5% 3m/3m saar growth, respectively (refer to the chart on the right).

Industrial production: February 2015

%m/m sa	Feb-15	Jan-15	Difference
Total	0.2	-0.1	0.3
Mining	1.5	-0.3	1.8
Utilities	0.1	0.4	-0.3
Construction	-2.2	-0.7	-1.4
Manufacturing	1.0	0.1	0.9

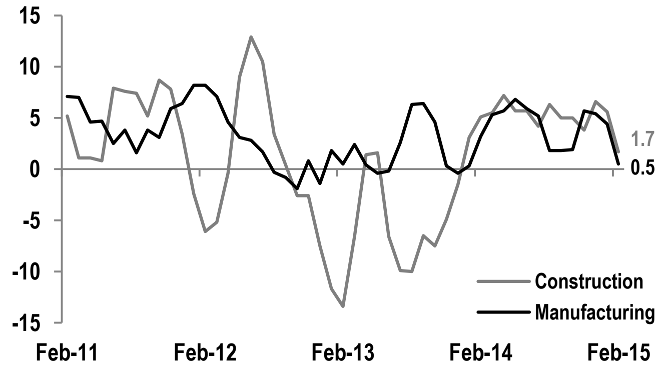
Source: INEGI, Banorte-Ixe

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 recent deceleration in manufacturing output has been mainly explained by climatic factors and labor disputes in some ports in the U.S., which has affected the growth of the U.S. manufacturing activity and Mexican exports. However, we believe that the recovery of the manufacturing industry is on the way and that will strengthen in the second quarter 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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