

## Industrial production – December’s null growth explained by lower construction and mining output

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- **Industrial production (December): 0% yoy; Banorte-Ixe: -0.3%; consensus: 0.3% (range: -1% to 1.6%); previous: 0.2%**
- **Industrial production increased 1% in 2015, below the 2.6% observed in 2014**
- **IP’s null growth in December was partially explained by the 1.4% yoy reduction in construction output and the 4.8% yoy fall in mining production**
- **However, manufacturing production increased 2.5% yoy**
- **In seasonally adjusted terms, industrial output fell 0.1% m/m**
- **IP posted a -1.4% 3m/3m saar variation, while manufacturing output edged-up to 1.8% in 4Q15 from 0.8% in 3Q15**
- **Looking ahead, we expect industrial production to show a marginal recovery in 1Q16**

**December’s null growth explained by lower construction and mining output.** *INEGI* just published its IP report for December, where the headline index posted a null growth (consensus: +0.3% yoy; Banorte-Ixe: -0.3%). With today’s figures, industrial production increased 1% throughout 2015, quite below the 2.6% observed in 2014.

IP’s poor performance in December was partially explained by the 1.4% yoy reduction in construction output given the 4.3% yoy fall in public civil engineering construction projects due to the fiscal cut announced by the federal government. Similarly, mining activity declined 4.8% as a result of the significant contraction in Mexico’s oil production.

Moreover, manufacturing output increased 2.5% yoy derived from the following factors: (1) The 10.2% yoy growth in food, beverage, and tobacco production; (2) a 7.9% increase in motor vehicles and autoparts industry; (3) a 7% hike in the production of electrical equipment, appliance, and component; and (4) 20% yoy growth in the production of clothing and textile products; which were partially offset by the reduction in (5) machinery (-2.6%); (6) furniture (-21.4%); and (7) the 8.5% yoy fall in the basic metal industries given the sharp decline in commodity prices.

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### Manufacturing production: December 2015

% yoy



Source: INEGI, Banorte-Ixe

### Industrial production: December 2015

%yoy	Dec-15	Dec-14	Jan-Dec, '15	Jan-Dec, '14
Total	0.0	3.5	1.0	2.6
Mining	-4.8	-6.1	-5.8	-1.5
Utilities	2.0	7.8	3.8	8.2
Construction	-1.4	6.7	2.5	2.0
Manufacturing	2.5	6.2	2.9	3.9
%yoy calendar effect	Dec-15	Dec-14	Jan-Dec, '15	Jan-Dec, '14
Total	-0.1	2.5	1.0	2.5
Mining	-4.8	-6.1	-5.8	-1.5
Utilities	2.0	7.8	3.8	8.2
Construction	-1.6	6.1	2.5	2.0
Manufacturing	2.4	4.4	2.9	3.9
Contribution to growth	Dec-15	Dec-14	Difference	
Total	0.0	3.5	-3.6	
Mining	-1.0	-1.4	0.4	
Utilities	0.1	0.5	-0.4	
Construction	-0.3	1.6	-1.9	
Manufacturing	1.2	2.9	-1.7	

Source: INEGI, Banorte-Ixe

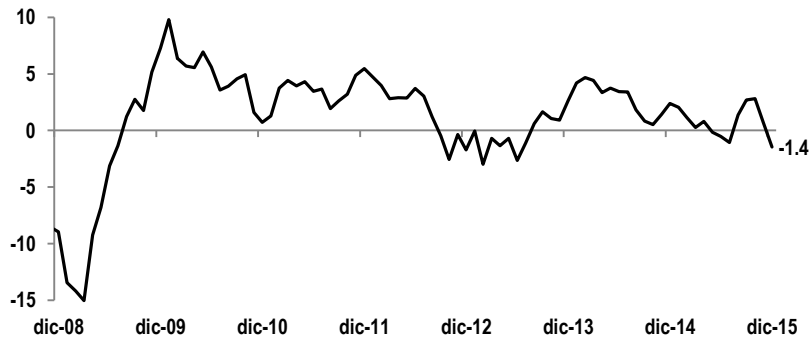
**In seasonally adjusted terms, IP decreased 0.1% m/m.** Taking a look at the breakdown, manufacturing output edged-up 0.3% m/m. However, construction activity fell 0.2% m/m, while mining decreased 1.1% m/m. With these figures, industrial production is down by 1.4% 3m/3m saar, as shown in the chart below. Moreover, manufacturing production edged-up to 1.8% 3m/3m saar in 4Q15 from 0.8% in 3Q15.

### Industrial production: December 2015

%m/m sa	Dec-15	Nov-15	Difference
Total	-0.1	-0.4	0.3
Mining	-1.1	-0.6	-0.5
Utilities	-0.8	-0.1	-0.7
Construction	-0.2	-1.0	0.8
Manufacturing	0.3	-0.2	0.6

Source: INEGI, Banorte-Ixe

**Industrial production**  
% 3m/3m saar



Source: Banorte-Ixe; INEGI

**Looking ahead, we expect a marginal recovery in industrial production during 1Q16.** The deceleration in Mexico’s manufacturing output during recent months has been explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Moreover, the manufacturing sub-sectors that hold a strong correlation with commodities prices has also decelerated significantly.

Nevertheless, we believe that Mexico’s non-vehicle manufacturing industry will strengthen in the first quarter of the year given: (1) Mexico’s manufacturing exports of final goods will show a visible recovery given the recent and significant depreciation of the Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that private construction output will show a marginal recover in the first quarter of the year, given the upward trend in consumption, the higher supply of banking credit, and the recovery in private investment. However, it is likely that the fiscal cut recently announced by the Federal Government for 2017, and the higher probability of an additional fiscal cut in 2016 will subdue Mexico’s overall investment growth.

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