

Industrial Production – March’s 2% yoy decline explained by the *Holy Week*

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- **Industrial production (March): -2% yoy; Banorte-Ixe: -3.7%; consensus: -0.9% (range: -3.8% to 2.2%); previous: 2.6%**
- **IP’s contraction in March was explained by an adverse calendar effect, given that the *Holy Week* subtracted two working days to the annual comparison**
- **With calendar adjusted figures, industrial production increased 0.3% yoy**
- **Manufacturing production increased 2.2% yoy (calendar adjusted figures)**
- **In seasonally adjusted terms, industrial output fell 0.2% m/m**
- **However, IP posted a 2% 3m/3m saar expansion, while manufacturing output edged-down to 0.8%**
- **Looking ahead, we expect industrial production to show a marginal recovery in 2Q16**

March’s contraction explained by an adverse calendar effect. *INEGI* just published its IP report for March, where the headline index posted a 2% yoy contraction (consensus: -0.9% yoy; Banorte-Ixe: -3.7%). We highlight that IP’s poor performance in March was explained by an adverse calendar effect, given that the *Holy Week* subtracted two working days to the annual comparison. With calendar adjusted figures, industrial production increased 0.3% yoy.

Taking a look at the breakdown, and using the calendar-adjusted figures, manufacturing output increased 2.2% yoy derived from the following factors: (1) The 8% yoy growth in food, beverage, and tobacco production; (2) a 6.8% increase in the fabrication of machinery and equipment; (3) a 6.8% hike in the production of electrical equipment and appliances; (4) an 8.2% yoy expansion in the fabrication of computer equipment; and (5) a 1.8% yoy contraction in motor vehicles and auto-parts industry, given the recent fall in vehicle exports to the U.S.

Moreover, construction output increased 1.7% yoy, as a result of the 0.9% growth in building projects, whereas public civil engineering construction projects edged-up to 5.3% yoy. However, mining activity declined 5.1% as a result of the significant contraction in Mexico’s oil production. With today’s figure, mining activity now adds 23 consecutive months in contraction. Finally, utilities increased 2.1%, as shown in the table below.

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Industrial production: March 2016

%yoy	Mar-16	Mar-15	Jan-Mar, '16	Jan-Mar, '15
Total	-2.0	1.9	0.4	1.7
Mining	-5.1	-5.7	-3.3	-5.6
Utilities	0.3	4.8	1.7	6.6
Construction	-1.0	6.2	2.0	4.7
Manufacturing	-1.5	3.2	1.0	3.1
%yoy calendar effect	Mar-16	Mar-15	Jan-Mar, '16	Jan-Mar, '15
Total	0.3	1.7	0.8	1.8
Mining	-5.1	-5.7	-4.4	-5.6
Utilities	2.1	4.8	2.3	6.6
Construction	1.7	5.9	3.1	4.6
Manufacturing	2.2	2.5	1.9	3.2
Contribution to growth	Mar-16	Mar-15	Difference	
Total	-2.0	1.9	-3.9	
Mining	-1.1	-1.3	0.2	
Utilities	0.0	0.3	-0.3	
Construction	-0.2	1.3	-1.5	
Manufacturing	-0.8	1.6	-2.4	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP fell 0.2% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.1% m/m. However, construction activity posted a 0.6% m/m expansion. Finally, mining decreased 1.1% m/m. With these figures, industrial production is up by 2% 3m/3m saar in the first quarter of the year from -1.1% in 4Q15. Moreover, manufacturing production edged-down to 0.8% 3m/3m saar from 1.6% in 4Q15, while construction output posted a significant 9.4% growth (refer to the charts on the next page).

Looking ahead, we expect a marginal recovery in industrial production.

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 also hold a strong correlation with commodities prices has decelerated significantly. Nevertheless, we believe that Mexico's manufacturing industry will strengthen in the first quarter of the year given: (1) Mexico's manufacturing exports of final goods will continue to show a moderate expansion given the still depreciated Mexican currency; (2) Mexico's exports of manufacturing intermediate goods will begin to recover given the better growth prospects for the U.S. manufacturing industry in 2Q16; and (3) the better growth prospects of the Mexican labor market, which will continue to translate into a stronger domestic demand for manufactured goods.

We also believe that private construction output will show a marginal recovery in the second quarter of the year, given the upward trend in consumption and the higher supply of banking credit for households and firms. However, it is likely that the fiscal cut recently announced by the Federal Government for 2016 will subdue Mexico's overall investment growth throughout the year.

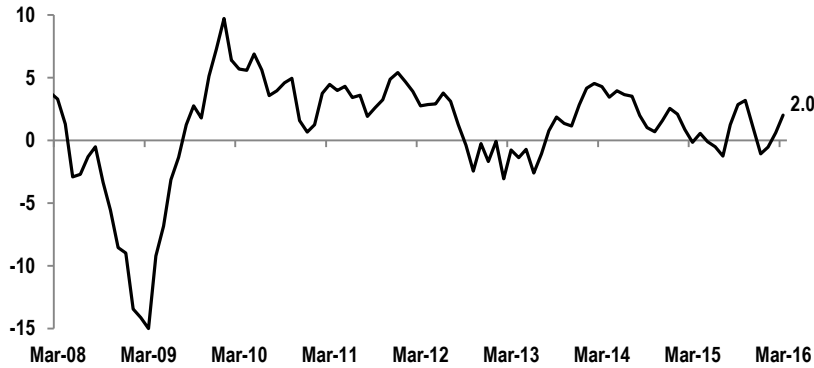
Industrial production: March 2016

%m/m sa	Mar-16	Feb-16	Difference
Total	-0.2	-0.5	0.3
Mining	-1.1	-0.4	-0.8
Utilities	-0.8	1.0	-1.8
Construction	0.6	-2.3	2.9
Manufacturing	-0.1	0.3	-0.4

Source: INEGI, Banorte-lxe

Industrial production

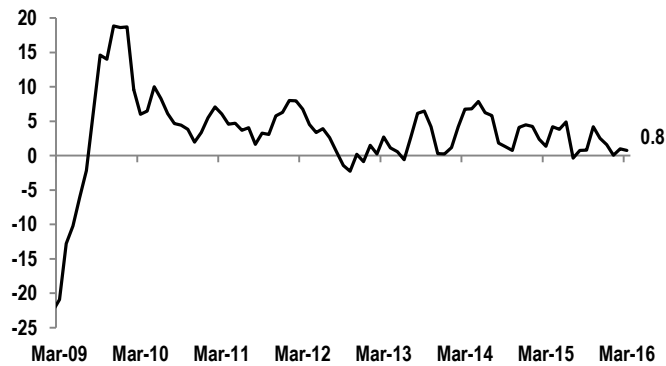
% 3m/3m saar



Source: Banorte-lxe; INEGI

Manufacturing production

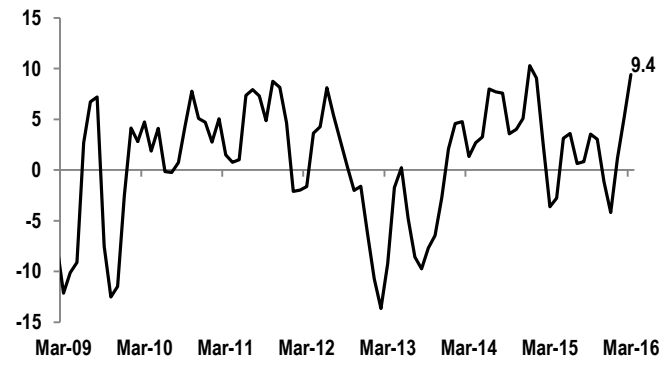
% 3m/3m saar



Source: Banorte-lxe; INEGI

Construction output

% 3m/3m saar



Source: Banorte-lxe; INEGI

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