

Industrial production – September’s 1.7% yoy growth explained by construction and manufacturing output

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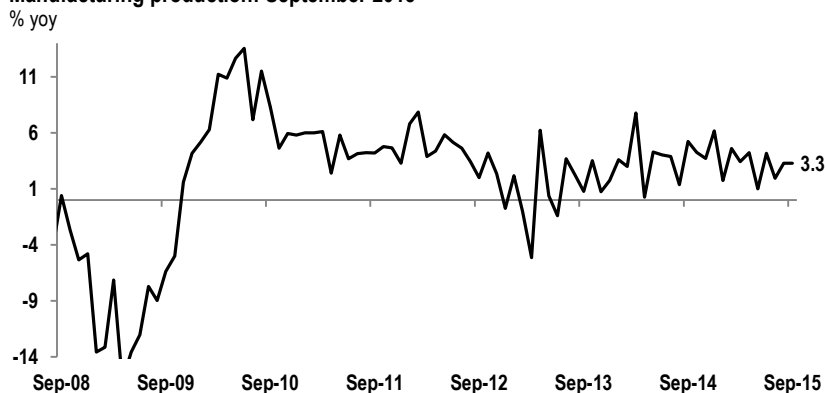
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- **Industrial production (September): 1.7% yoy; Banorte-Ixe: 1.5%; consensus: 1.2% (range: 0.4% to 1.6%); previous: 1.1%**
- **IP’s growth was partially explained by the stronger construction and manufacturing output (4% and 3.3% yoy, respectively)**
- **However, mining activity fell 5.1% yoy, adding 18 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output increased 0.4% m/m, on the back of the 0.2% m/m expansion in construction activity, along with the 0.5% m/m reduction in manufacturing production**
- **Looking ahead, we expect industrial production to gain momentum**

September’s growth explained by the stronger construction and manufacturing output. INEGI just published its IP report for September, where the headline index increased 1.7% yoy (consensus: 1.2% yoy; Banorte-Ixe: 1.5%). IP’s growth was partially explained by the 3.3% yoy growth in manufacturing production. Moreover, construction output increased 4% yoy, while mining activity declined 5.1%, as a result of the significant contraction in Mexico’s oil production. With today’s report, the mining industry now adds eighteen consecutive months in contraction. Finally, utilities edged-up 4.1% yoy, as shown in the table on the following page.

Manufacturing production: September 2015



Source: INEGI, Banorte-Ixe

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Industrial production: September 2015

% yoy	Sep-15	Sep-14	Jan-Sep, '15	Jan-Sep, '14
Total	1.7	3.9	1.2	2.5
Mining	-5.1	-1.7	-6.3	-0.2
Utilities	4.1	9.9	3.9	8.3
Construction	4.0	4.7	3.6	0.7
Manufacturing	3.3	5.2	3.1	3.7
% yoy calendar effect	Sep-15	Sep-14	Jan-Sep, '15	Jan-Sep, '14
Total	1.5	3.1	1.2	2.5
Mining	-5.1	-1.7	-6.3	-0.2
Utilities	4.1	9.9	3.9	8.3
Construction	3.6	3.9	3.6	0.7
Manufacturing	2.7	3.9	3.1	3.7
Contribution to growth	Sep-15	Sep-14	Difference	
Total	1.7	3.9	-2.1	
Mining	-1.1	-0.4	-0.7	
Utilities	0.3	0.7	-0.4	
Construction	0.9	1.0	-0.1	
Manufacturing	1.6	2.5	-0.9	

Source: INEGI, Banorte-Ixe

In seasonally adjusted terms, IP increased 0.4% m/m. Taking a look at the breakdown, manufacturing output edged-down 0.2% m/m. Moreover, construction activity increased 0.5% over the previous month, while mining production posted a 0.2% m/m expansion. With these figures, industrial production is up 3.3% 3m/3m saar, from -0.3% expansion observed in 2Q15, as shown in the chart on the next page. However, manufacturing production is up by a scant 0.1% 3.3% 3m/3m saar, while construction output increased 6.8% 3.3% 3m/3m saar.

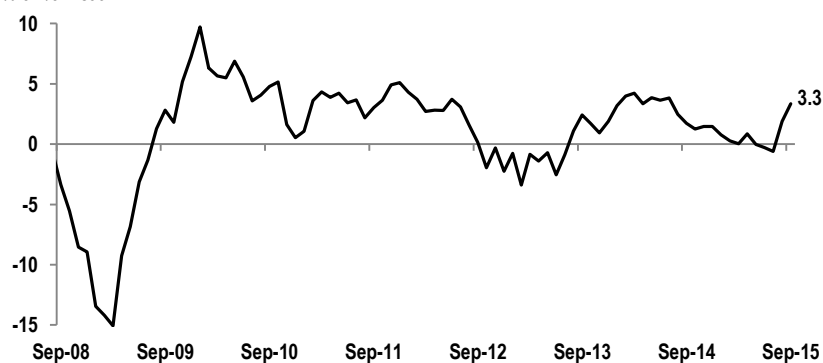
Industrial production: September 2015

%m/m sa	Sep-15	Aug-15	Difference
Total	0.4	0.2	0.1
Mining	0.2	-0.2	0.3
Utilities	1.0	1.0	0.0
Construction	0.5	-0.4	0.9
Manufacturing	-0.2	0.9	-1.1

Source: INEGI, Banorte-Ixe

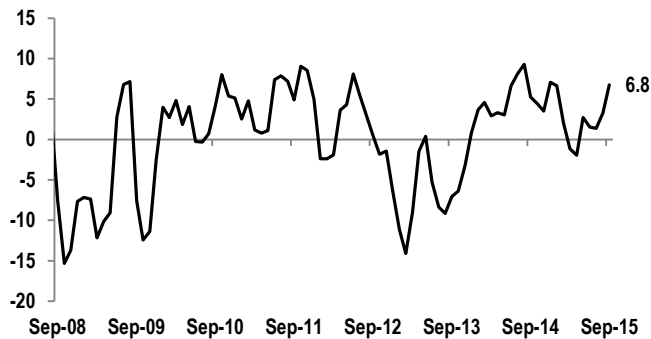
Industrial production

% 3m/3m saar



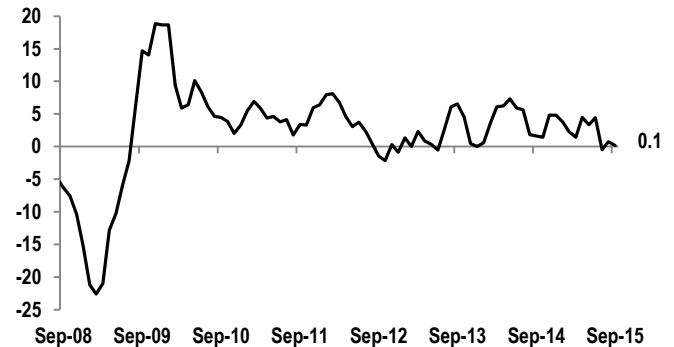
Source: Banorte-Ixe; INEGI

Construction
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Manufacturing production
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect industrial production to gain momentum. The deceleration in Mexico’s manufacturing output during the first half of the year was mainly explained by the slow growth in the U.S. manufacturing sector, given that both hold a strong correlation. Moreover, we believe that Mexico’s auto-industry will be affected by the recent Volkswagen scandal, given that this firm’s production fell 22% yoy in October.

Nevertheless, we believe that Mexico’s non-vehicle manufacturing industry will strengthen in the last quarter of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico’s manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

We also believe that construction output will continue to recover in the last quarter of the year, given the upward trend in private consumption and investment. However, it is likely that the current recession in the mining industry –derived from the significant contraction in Mexico’s oil production– will continue limiting the recovery of industrial activity.

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