

April's Industrial production – Manufacturing output shows early signs of recovery

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- **Industrial production (April): 1.1% yoy; Banorte-Ixe: 1.4%; consensus: 1.3% (range: -0.5% to 2.5%); previous: 1.7%**
- **Manufacturing production increased 3.7% yoy, above our 2.3% estimate**
- **Construction output expanded 4.8% yoy, while mining activity fell 8.3% yoy**
- **In seasonally adjusted terms, industrial output fell 0.1% m/m, on the back of the 3.6% m/m contraction in mining production, along with the 2% m/m expansion in manufacturing activity**
- **Mining activity now adds thirteen consecutive months in contraction**
- **Looking ahead, we expect industrial production to gain momentum**

Manufacturing output posted a significant recovery. INEGI just published its IP report for April, where the headline index increased 1.1% yoy. Taking a look at the breakdown, manufacturing output grew 3.7% yoy, above our 2.3% estimate. Moreover, the construction sector posted a 4.8% yoy expansion. However, mining activity declined 8.3%, as a result of the significant contraction in Mexico's oil production. With today's report, the mining industry now adds thirteen consecutive months in contraction. Finally, utilities increased 1.7% yoy, as shown in the following table.

Industrial production: April 2015

| % yoy | Apr-15 | Apr-14 | Jan-Apr, '15 | Jan-Apr, '14 |
|---------------|--------|--------|--------------|--------------|
| Total | 1.1 | -0.9 | 1.4 | 1.2 |
| Mining | -8.3 | -1.3 | -5.8 | -0.5 |
| Utilities | 1.7 | 2.3 | 2.9 | 2.2 |
| Construction | 4.8 | -3.8 | 4.5 | -2.1 |
| Manufacturing | 3.7 | 0.1 | 3.2 | 3.3 |

| Contribution to growth | Apr-15 | Apr-14 | Difference |
|------------------------|--------|--------|------------|
| Total | 1.1 | -0.9 | 2.1 |
| Mining | -1.8 | -0.3 | -1.5 |
| Utilities | 0.1 | 0.1 | 0.0 |
| Construction | 1.0 | -0.8 | 1.8 |
| Manufacturing | 1.9 | 0.1 | 1.8 |

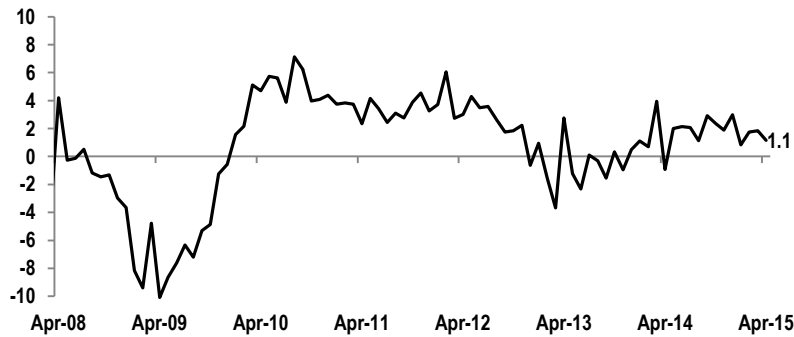
Source: INEGI, Banorte-Ixe

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In seasonally adjusted terms, IP fell 0.1% m/m. Taking a look at the breakdown, manufacturing output edged-up 2% m/m, while construction activity increased 0.1% over the previous month. However, mining production posted a significant 3.6% m/m contraction, which explains the fall in the headline index. With these figures, manufacturing output is up 2.7% 3m/3m saar in April, from 0.3% in 1Q15, as shown in the chart below.

Industrial production: April 2015

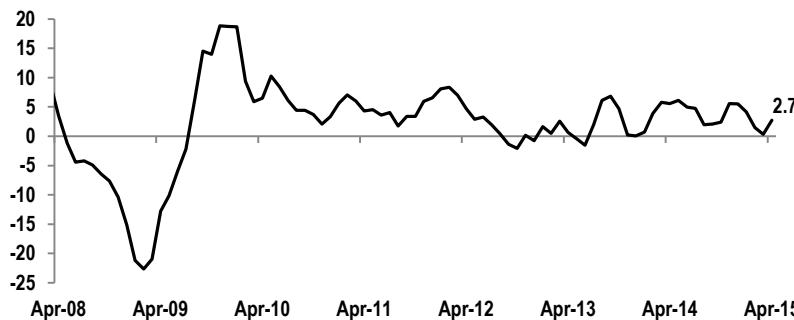
% yoy



Source: INEGI, Banorte-lxe

Manufacturing production

% 3m/3m saar



Source: Banorte-lxe; INEGI

Looking ahead, we expect industrial production to gain additional momentum. Despite the deceleration in manufacturing output during the first quarter of the year, we believe that April’s report is beginning to show the recovery of the manufacturing industry. In this regard, we believe that this sector will continue to strengthen in the second quarter of the year given: (1) The 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 which could result in stronger growth dynamics for 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 2H15. 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 in the first half of this year.

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