

## Disappointing industrial activity in August on the back of weakness in construction

October 12, 2018

www.banorte.com  
@ analisis\_fundam

**Juan Carlos Alderete, CFA**  
Senior Economist, Mexico  
juan.alderete.macal@banorte.com

**Francisco Flores**  
Economist, Mexico  
francisco.flores.serrano@banorte.com

- **Industrial production (August): 0.2% yoy; Banorte: 1.9%; consensus: 0.9%; previous: 1.3%**
- **August's annual growth was driven by the relative strength of the manufacturing sector. However, both mining and construction contracted, dampening overall performance**
- **In seasonally adjusted terms, IP decreased 0.5% m/m, its sharpest fall since September 2016, were we highlight the 2.9% decrease in construction**
- **Today's report lowers the probability of a strong rebound in industrial activity this quarter despite the reduction of trade uncertainty**

**Considerable moderation in industrial output.** INEGI just published its IP report for August, where the headline index posted a 0.2% yoy expansion (non-seasonally adjusted figures), below our 1.9% forecast (consensus: 1.0%). We highlight weaker dynamics in construction, falling 1.6% after posting positive year-over-year growth rates since April. In detail, the decrease was explained by the 2.9% contraction in building projects after two months on the upside, along the 4.6% decrease in civil engineering. Mining output fell 4% due to the 5.9% decrease in oil and gas mining. Despite that the latter continues to limit overall industrial activity, it is important to note that this was the most modest contraction since May 2016. In addition, utilities posted a 2.6%, as shown in the table below.

On the other hand, manufacturing increased 2.1% yoy, not too far away from the 2.4% average from May to July. This figure contrasts with the more positive signal provided by US industrial production during the same month, which suggested an expansion closer to 3%. Dynamics among subsectors were very similar to the previous month, with a strong performance in textiles excluding clothing (10.7%), beverages and tobacco (6.1%), and transportation equipment (4.1%). On the flip side, we note the strong decline in oil- and carbon-based products (-6.8%).

### Industrial production: August 2018

% yoy, nsa

	Aug-18	Aug-17	Jan-Aug, '18	Jan-Aug, '17
Total	0.2	0.1	0.4	-0.4
Mining	-4.0	-8.9	-6.0	-9.5
Utilities	2.6	-1.2	1.9	-0.2
Construction	-1.6	-1.0	1.9	-1.1
Manufacturing	2.1	4.0	1.8	3.4

Source: INEGI

Document for distribution among public

**Seasonally-adjusted figures reduce the possibility of an acceleration in 3Q18.** Industrial activity posted a 0.5% m/m fall, in contrast with our expectation and its strongest decrease in the year. By subsectors, we highlight the 1% advance in mining, although pressure on this sector could continue given weakness on oil and gas extraction. By contrast, construction reversed the strength shown in the two previous months, with a considerable 2.9% contraction. In this regard, today’s report suggests a strong deceleration after the end of the electoral process in our country, as evidenced by the fall in the three subcomponents. Lastly, the manufacturing sector advanced 0.2%, with transportation equipment (which includes auto production) moderating its advance as it grew 0.3%, lower than the 2.6% seen in the previous month. In our opinion, given lower uncertainty around the trade relationship between the US and Mexico (considering trade talks had a more positive tone since the beginning of the month, pointing to a possible agreement) production could have been impacted in August as a result of the likely payback from ramped-up production in previous months.

**Industrial production: August 2018**

% m/m, sa

	Aug-18	Jul-18	Jun-18
Total	-0.5	0.2	0.3
Mining	1.0	-1.1	-0.3
Utilities	-1.3	1.6	3.0
Construction	-2.9	1.3	0.6
Manufacturing	0.2	0.0	0.3

Source: INEGI

With these figures, industrial production posted a 0.8% 3m/3m saar growth, which represents an improvement for the second month in a row. Nevertheless, manufacturing output moderated as it decreased to 2.9% from 4% in the previous month. Moreover, both construction and mining stood fell by this measure at -2.2% and -2.8%, respectively. In this regard, we highlight that both indices moderated its contraction rate, suggesting an improvement at the margin.

**Industrial production: August 2018**

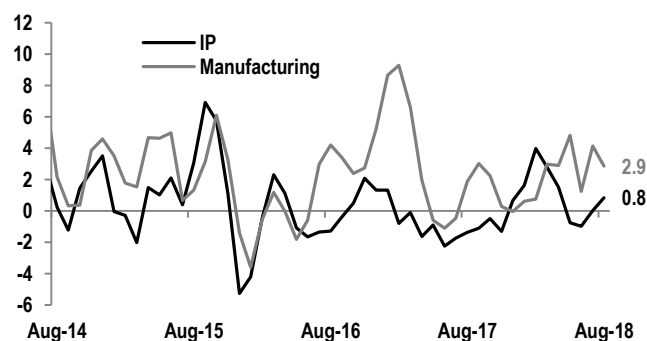
% 3m/3m saar

	Aug-18	Jul-18
Total	0.8	0.0
Mining	-2.8	-4.2
Utilities	8.8	0.0
Construction	-2.3	-4.6
Manufacturing	2.9	4.0

Source: INEGI

**Industrial production: Total and manufacturing**

% 3m/3m saar



Source: INEGI

**Today's report lowers the probability of a strong rebound in industrial activity this quarter despite the reduction of trade uncertainty.** Before this print, we argued that signals in manufacturing activity had improved across the board, including business confidence as well as forward-looking indicators in IMEF's PMIs. Moreover, we anticipated that positive news regarding the renegotiation of NAFTA would support the sector as a result of the reduction in uncertainty. Nevertheless, today's figure suggests that companies brought forward production plans before reaching an agreement due to the possibility of an unfavorable outcome. In this regard and despite still expecting an improvement on the back of strong dynamics in industrial production in the US, it is likely to be at a more modest pace. Specifically, we now believe that industrial activity could grow at a 3m/3m saar rate near the lower bound of the 0-1% range this quarter, which would still be above the 0.7% contraction observed in 2Q18.

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

**Grupo Financiero Banorte S.A.B. de C.V.**, through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

<b>Reference</b>	
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

*The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.*

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 1670 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454