

Industrial production – Significant recovery in construction and mining output

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- **Industrial production (January): 0.9% yoy; Banorte: 0.4%; consensus: 0.4% (range: -0.3% to 2.4%); previous: -0.7%**
- **The 0.9% yoy expansion in January was explained by the 4% yoy expansion in construction output, coupled with the marginal 1.7% yoy increase in manufacturing production. Mining output posted a 5% yoy contraction**
- **In seasonally adjusted terms, industrial production in January remained unchanged; however we highlight the 0.5% m/m increase in construction and the 0.5% m/m contraction in manufacturing production**
- **Looking ahead, we expect a marginal recovery of industrial production during the first half of the year**

Significant recovery in construction output. INEGI just published its IP report for January, where the headline index posted a 0.9% yoy expansion, above our 0.4% forecast (consensus: 0.4% yoy). The marginal expansion in industrial production during January was mostly explained by the 4% yoy increase in construction output as a result of the 5.5% expansion in building projects, whereas public civil engineering construction projects declined 5.6% yoy, given the austerity program implemented by the Federal Government. By contrast, mining output edged-down 5% yoy, given the 5.4% reduction in oil and gas production.

In addition, manufacturing output increased a scant 1.7% yoy, as a result of the 27% yoy reduction in the fabrication of oil and carbon-based products. Nevertheless, vehicle production increased 5.7% yoy, while the fabrication of machinery and equipment posted a 3.7% yoy expansion.

In seasonally adjusted terms, IP in January remained unchanged. Taking a look at the breakdown, manufacturing output posted a 0.5% m/m contraction. By contrast, mining activity posted a 1.6% m/m expansion, while construction output increased 0.5% m/m, as a result of the 0.5% growth in building projects.

With these figures, industrial production posted a 2.1% 3m/3m annualized growth, explained by the 5.9% increase in mining output. Moreover, construction posted a 7% 3m/3m saar expansion (refer to the charts on the third page).

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Looking ahead, we expect a marginal recovery of industrial production. We believe that Mexican manufacturing production will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the prospects of a successful NAFTA renegotiation and the presidential elections that will take place in our country on the 1st of July will probably reflect in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

In addition, we expect a higher growth in construction output as soon as 1Q18 derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

Moreover, despite January's recovery, we believe that Mexico's mining industry will continue to fall throughout the first half of the year, as a result of Government's fiscal consolidation plan which has affected Mexico's drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal recovery of industrial production in the first half of 2018.

Industrial production: January 2018

% yoy; %-pts

%yoy	Jan-18	Jan-17	2017	2016
Total	0.9	0.3	-0.6	0.4
Mining	-5.0	-9.5	-9.8	-4.1
Utilities	1.6	0.9	-0.2	0.1
Construction	4.0	0.6	-1.0	2.0
Manufacturing	1.7	4.2	2.9	1.5

Contribution to growth	Jan-18	Jan-17	Difference
Total	0.9	0.3	0.6
Mining	-1.0	-2.0	1.1
Utilities	0.1	0.0	0.0
Construction	0.9	0.1	0.8
Manufacturing	0.9	2.1	-1.2

Source: INEGI, Banorte

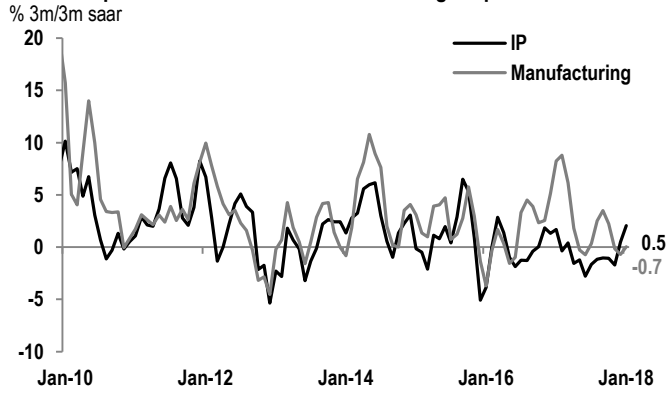
Industrial production: January 2018

% m/m sa

	Jan-18	Dec-17	Difference
Total	0.0	1.0	-0.9
Mining	1.6	-0.4	2.0
Utilities	2.0	-3.9	5.9
Construction	0.5	4.8	-4.3
Manufacturing	-0.5	0.0	-0.5

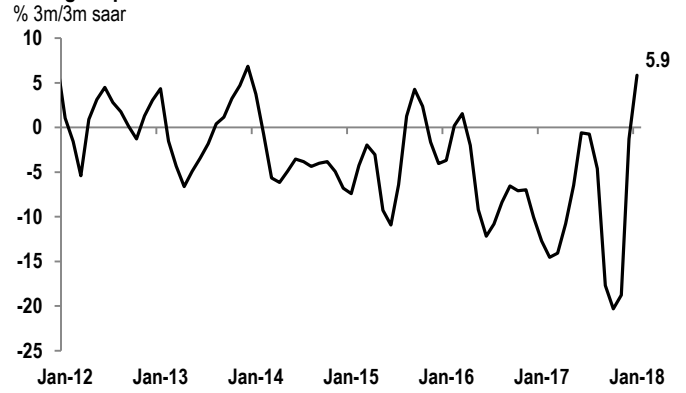
Source: INEGI, Banorte

Industrial production: Total and manufacturing output



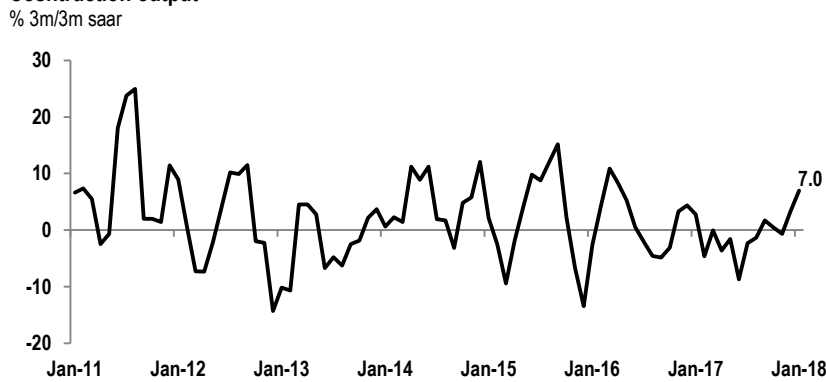
Source: Banorte; INEGI

Mining output



Source: Banorte; INEGI

Construction output



Source: INEGI, Banorte

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