

Industrial production – Slight increase in June

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- **Industrial production (June): 0.2% yoy; Banorte: 0.1%; consensus: 0.2% (range: -0.7% to 0.5%); previous: 0.2%**
- **June’s growth was explained by greater dynamism in the manufacturing and construction sectors; however it was offset by the recession in the mining sector**
- **In seasonally adjusted terms, IP expanded 0.3% m/m, driven by the 0.6% increase in construction despite of the 0.2% fall in mining**
- **Looking ahead, we expect manufacturing to continue to be the main support for industrial production**

Dynamism continues in the manufacturing sector. INEGI just published its IP report for June, where the headline index posted a 0.2% yoy expansion (non-seasonally adjusted figures), marginally above our 0.1% forecast (consensus: 0.2%). Taking a look at the breakdown, manufacturing output grew 2% yoy on the back of a 3.7% growth in the food industry, as well as gains in the manufacturing of transportation equipment (2.4%) and metallic products (8%). However, there were significant declines in the manufacturing of oil and carbon-based products (-19.8%) as well as in the wood industry (-8.1%).

Construction output posted a 1% yoy expansion as a result of the 1.5% and 6.3% increases in building projects and specialized work for construction, respectively. However, civil engineering projects declined 4.9%. By contrast, mining edged-down 6.6% as oil and gas production fell 8.5%. Finally, utilities edged-up 1.8% (as shown in the table below)

Industrial production: June 2018
% yoy, nsa

	Jun-18	Jun-17	Jan-Jun, '18	Jan-Jun, '17
Total	0.2	-0.4	0.3	-0.5
Mining	-6.6	-7.4	-6.1	-9.8
Utilities	1.8	0.4	1.4	0.1
Construction	1.0	-0.8	2.0	-0.9
Manufacturing	2.0	2.3	1.5	3.2

Source: INEGI

On a monthly basis, IP posted a 0.3% expansion. Using seasonally adjusted figures, manufacturing output increased 0.1% m/m. Moreover, construction output advanced 0.6%, as a result of the 1.3% growth in building projects and 1.9% in civil engineering. By contrast, mining posted a 0.2% contraction (as shown in the following table).

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Industrial production: June 2018

% m/m, sa

	Jun-18	May-18	Apr-18
Total	0.3	0.0	-0.4
Mining	-0.2	-0.7	1.4
Utilities	3.0	-4.5	4.7
Construction	0.6	-1.0	-0.7
Manufacturing	0.1	1.9	-2.6

Source: INEGI

With these figures, industrial production posted a 1.1% 3m/3m saar contraction, explained by the 1.1% 3m/3m saar expansion in manufacturing, coupled with the 6.9% 3m/3m saar decrease in construction and the 5.4% 3m/3m saar fall in mining.

Industrial production: June 2018

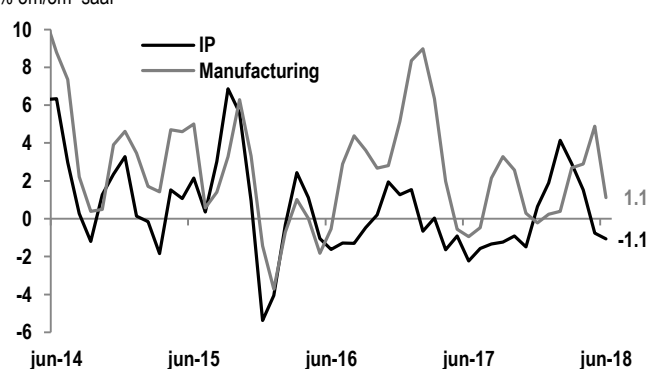
% 3m/3m saar

	Jun-18	Mar-18
Total	-1.1	2.9
Mining	-5.4	-0.6
Utilities	3.0	3.8
Construction	-6.9	11.2
Manufacturing	1.1	2.7

Source: INEGI

Industrial production: Total and manufacturing

% 3m/3m saar



Source: INEGI

Looking ahead, we expect manufacturing to continue to be the main support of industrial production. Despite potential adverse effects of the appreciation of the exchange rate on the manufacturing sector, we continue to believe that manufacturing will be the main driver of industrial activity in the third quarter of 2018. In addition, we expect construction to keep growing, albeit at a more moderate rate. In spite of the latter, we anticipate mining to stay as the main drag to total industrial output.

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