Industrial production – February's 2.6% yoy growth explained by a calendar effect

April 11, 2016

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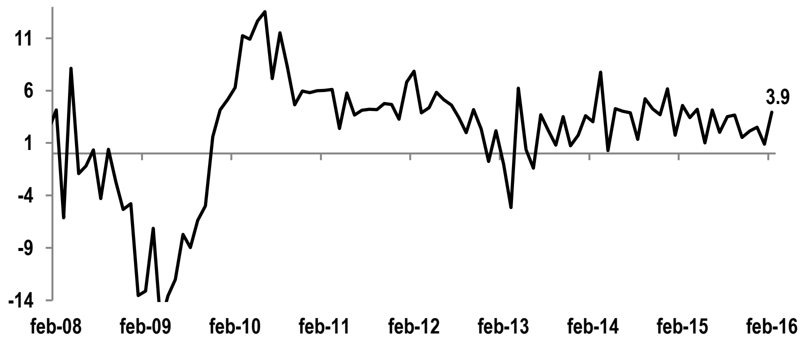
- **Industrial production (February): 2.6% yoy; Banorte-Ixe: 1.3%; consensus: 1.4% (range: -0.5% to 3.2%); previous: 0.8%**
- **IP's growth in February was explained by a calendar effect, given that 2016 is a leap year**
- **Manufacturing production increased 3.9% yoy**
- **In seasonally adjusted terms, industrial output declined 0.1% m/m**
- **IP posted a 0.3% 3m/3m saar expansion, while manufacturing output edged-up to 1.6%**
- **Looking ahead, we expect industrial production to show a marginal recovery in the next months**

February's growth explained by the effect of leap-year. *INEGI* just published its IP report for February, where the headline index posted a 2.6% growth (consensus: 1.4% yoy; Banorte-Ixe: 1.3%). IP's better-than-expected performance in February was mainly explained by the effect of leap-year, adding one day to the Mexico's industrial production in February. In this context, the construction sector posted a 3.5% yoy growth on the back of a 3.9% expansion in residential construction, whereas infrastructure construction increased 3%yoy. In addition, mining activity declined 1.8% as a result of a 2.2% contraction in Mexico's oil output.

Moreover, manufacturing output increased 3.9% yoy derived from the following factors: (1) The 10.1% yoy growth in food, beverage, and tobacco production; (2) a 4.7% hike in the production of electrical equipment et al.; (3) a 13.7% yoy hike in machinery and equipment output; and (4) the 5.2% yoy increase in the production of fuel given the slightly expansion in energy prices in February.

We highlight that according to figures adjusted for calendar effects (eliminating the effect of leap-year), industrial production grew only 0.8% yoy; derived from (1) a 3.8% growth in the construction sector; (2) an expansion of 3.6% in utilities; (3) a 1.8% increase in manufacturing; and (4) a 5% yoy reduction in the mining sector.

Manufacturing production: February 2016
% yoy



Source: INEGI, Banorte-Ixe

Industrial production: February 2016

%yoy	Feb-16	Feb-15	Jan-Feb, '16	Jan-Feb, '15
Total	2.6	2.0	1.7	1.5
Mining	-1.8	-4.4	-2.4	-5.5
Utilities	3.6	6.2	2.5	6.5
Construction	3.5	1.0	3.7	3.7
Manufacturing	3.9	4.6	2.4	3.1
%yoy calendar effect	**Feb-16**	**Feb-15**	**Jan-Feb, '16**	**Jan-Feb, '15**
Total	0.8	2.0	1.2	1.7
Mining	-5.0	-4.4	-3.9	-5.5
Utilities	3.6	6.2	2.5	6.5
Construction	3.8	1.0	4.0	3.7
Manufacturing	1.8	4.6	1.9	3.7
Contribution to growth	**Feb-16**	**Feb-15**	**Difference**	
Total	2.6	2.0	0.7	
Mining	-0.4	-1.0	0.6	
Utilities	0.3	0.4	-0.2	
Construction	0.7	0.2	0.5	
Manufacturing	2.0	2.3	-0.3	

Source: INEGI, Banorte-Ixe

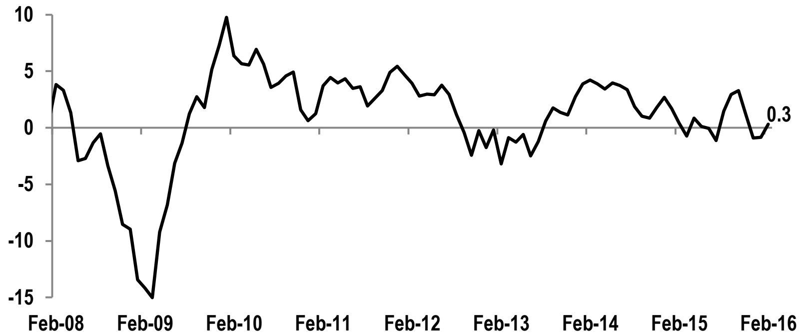
In seasonally adjusted terms, IP decreased 0.1% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.5% m/m. However, construction activity posted a 2.5% m/m reduction. Finally, mining decreased 0.2% m/m. With these figures, industrial production is up by 0.3% 3m/3m saar, as shown in the chart below. Moreover, manufacturing production edged-up to 1.6% 3m/3m saar from 0.5% observed in January.

Industrial production: February 2016

%m/m sa	Feb-16	Jan-16
Total	-0.1	0.7
Mining	-0.2	1.1
Utilities	1.2	-0.6
Construction	-2.5	3.8
Manufacturing	0.5	-0.1

Source: INEGI, Banorte-Ixe

Industrial production
% 3m/3m saar



Source: Banorte-Ixe; INEGI

Looking ahead, we expect a marginal recovery in industrial production in the next months. We believe that Mexico's manufacturing industry will strengthen in the next months on the back of: (1) Mexico's exports of manufacturing intermediate goods will begin to recover given the initial recovery in the U.S. manufacturing industry; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods. We also believe that private construction output will show a marginal recovery in the next months, given the upward trend in consumption and the better performance of banking credit indicators. However, it is likely that the government's spending cut will weaken investments in the coming months.

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