

Industrial production – Fiscal cuts behind August’s contraction

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- **Industrial production (August): 0.3% yoy; Banorte-Ixe: -0.2%; consensus: 1% (range: -0.5% to 2.7%); previous: -1.3%**
- **IP’s growth was explained by a calendar effect given that August had two additional working days this year**
- **With calendar adjusted figures, industrial production fell 0.9% yoy**
- **Manufacturing production increased 1.2% yoy, while construction output fell 1.4% and mining activity posted an 8.1% reduction (calendar adjusted figures)**
- **With today’s figures, the mining industry now adds 27 consecutive months in contraction**
- **In seasonally adjusted terms, industrial output fell 0.4% m/m, while manufacturing output increased 0.2% m/m...**
- **Looking ahead, we expect industrial production to show a marginal recovery**

August’s scant expansion explained by a calendar effect. *INEGI* just published its IP report for August, where the headline index posted a 0.3% yoy expansion, above our -0.2% forecast (consensus: 1% yoy). However, we highlight that IP’s growth was explained by a calendar effect given that August had two additional working days this year.

Taking a look at the breakdown, and using the calendar-adjusted figures, manufacturing output increased 1.2% yoy (Banorte-Ixe: 1.2%). However, construction output declined 1.4%, as a result of the 3.2% growth in building projects, whereas public civil engineering construction projects declined 19.1% yoy, given the fiscal cuts implemented by the Federal Government. Moreover, mining activity fell 8.1% as a result of the significant contraction in Mexico’s oil production, and the lower investment in Mexico’s drilling projects. With today’s figure, mining activity now adds 27 consecutive months in contraction. Finally, utilities increased 2.9%, as shown in the table on the next page.

In seasonally adjusted terms, IP fell 0.4% m/m. Taking a look at the breakdown, manufacturing output edged-up 0.2% m/m. However, construction activity fell 0.8% m/m, while mining declined 1.7% m/m. With these figures, industrial production is down by 0.1% 3m/3m saar from -2.3% in 2Q16. Moreover, manufacturing production edged-up to 4.6% 3m/3m saar from -0.9% in 2Q16, while construction output posted a 3.1% contraction (refer to the charts on the third page).

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Looking ahead, we expect a marginal recovery in industrial production. We continue to believe that Mexico's manufacturing industry will show a marginal recovery during the last quarter of the year given: (1) Manufacturing exports of final goods will continue to show a moderate expansion given the still depreciated Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will continue to translate into a stronger domestic demand for manufactured goods. However, this recovery will be bounded by the slowdown of the US manufacturing industry, which will affect the production of intermediate goods.

We also believe that construction output will continue to fall. As we have mentioned throughout our publications, the fiscal cuts implemented by the Federal Government, which have affected the construction of public infrastructure projects, will overcompensate the upward trends in private construction projects in the last quarter of the year.

Industrial production: August 2016

% yoy

Original figures	Aug-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Total	0.3	1.2	0.4	1.1
Mining	-8.1	-6.0	-4.6	-6.4
Utilities	2.9	3.6	4.1	4.2
Construction	-0.6	2.5	1.5	3.8
Manufacturing	3.7	3.5	1.4	3.0
Adjusted by calendar effect	Aug-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Total	-0.9	1.2	0.1	1.2
Mining	-8.1	-6.0	-5.0	-6.4
Utilities	2.9	3.6	4.1	4.2
Construction	-1.4	3.0	1.4	3.8
Manufacturing	1.2	3.8	1.0	3.0
Contribution to growth	Aug-16	Aug-15	Difference	
Total	0.3	1.2	-0.9	
Mining	-1.6	-1.3	-0.3	
Utilities	0.2	0.3	0.0	
Construction	-0.1	0.5	-0.7	
Manufacturing	1.9	1.7	0.1	

Source: INEGI, Banorte-Ixe

Industrial production: August 2016

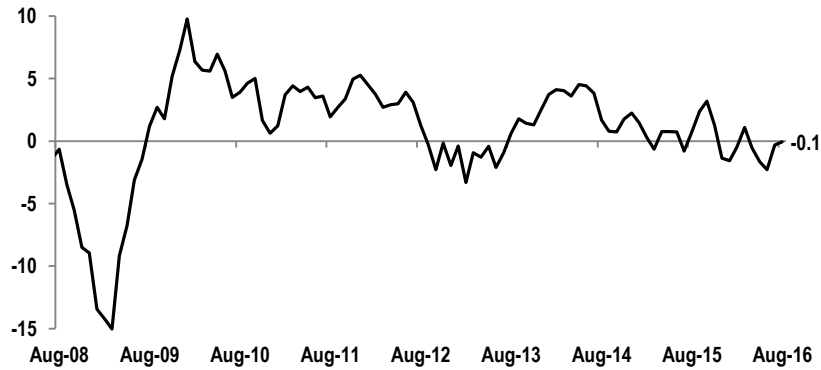
% m/m sa

	Aug-16	Jul-16	Difference
Total	-0.4	0.1	-0.4
Mining	-1.7	-0.5	-1.2
Utilities	-1.0	0.2	-1.3
Construction	-0.8	-0.8	0.0
Manufacturing	0.2	0.6	-0.4

Source: INEGI, Banorte-Ixe

Industrial production

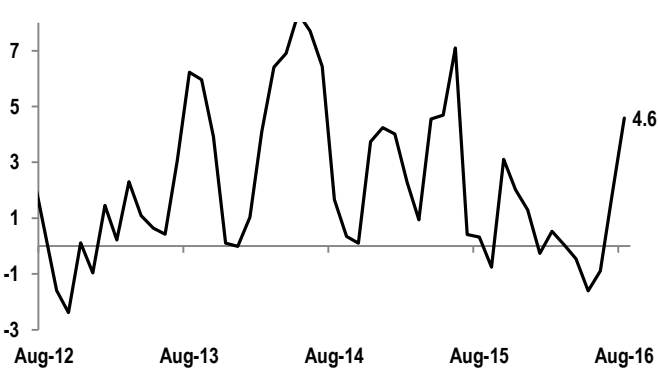
% 3m/3m saar



Source: Banorte-lxe; INEGI

Manufacturing production

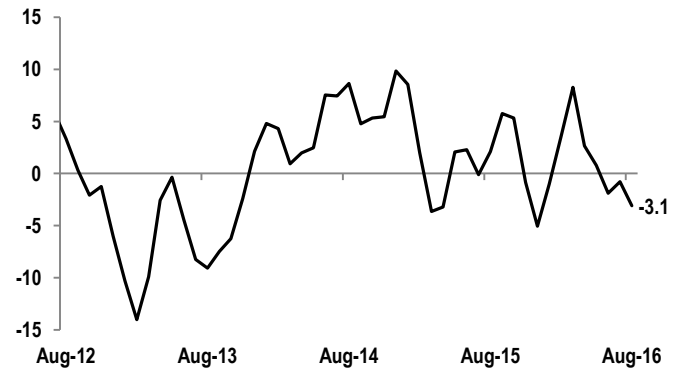
% 3m/3m saar



Source: Banorte-lxe; INEGI

Construction output

% 3m/3m saar



Source: Banorte-lxe; INEGI

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