

Mexico

Economic Watch

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Industrial production: growth continues to slow

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- Industrial production was up 0.2% in November 2010 on the previous month. This puts the annual non-seasonally adjusted rise at 5.3%, significantly above that forecast by the market (3.8%), although in line with the forecast by BBVA Research (5.4%).
- In seasonally adjusted terms, all components except for the mining industry posted positive rates, with the construction industry leading the way (1.2% m/m, 5.2% y/y). Production of manufactures was up by 0.5% m/m (4.9% y/y).
- The three components in the construction industry rallied after remaining practically stagnant in previous months. Formal employment (as registered in the private sector) in the construction industry posted among the highest growth rates of all, at around 0.8% m/m in the last quarter of the year (overall growth was 0.4%).
- In manufacturing industry, there was a positive performance in the branches most closely linked to the foreign cycle, with average growth significantly higher than for branches with fewer links to the U.S. industry, at an average of 9.3% against 1.7% respectively (both year-on-year seasonally-adjusted). Particularly notable were industrial branches such as machinery and equipment manufacture and transport equipment manufacture, which contributed around 16% of the volume of manufactures (14 pp in the case of transport equipment alone). They have performed particularly well in recent months, in contrast with the falls due to the drop in foreign demand in 2009.

Highlights: in December Mexican industrial production on the back of U.S. industry will have continued (0.6% up in the last month of the year). The volume of imports of intermediate goods (a pointer to domestic activity) performed better towards the end of the year than in 3Q (1% October-November vs. 0.2% 3Q). In the coming months we expect to see a moderate recovery in components with a significant weight in manufacturing with domestic demand. This will help improve the profile of the industry.

* INEGI revised the previous month down from the published figure of 0.3% m/m to 0.4%.

Table 1:

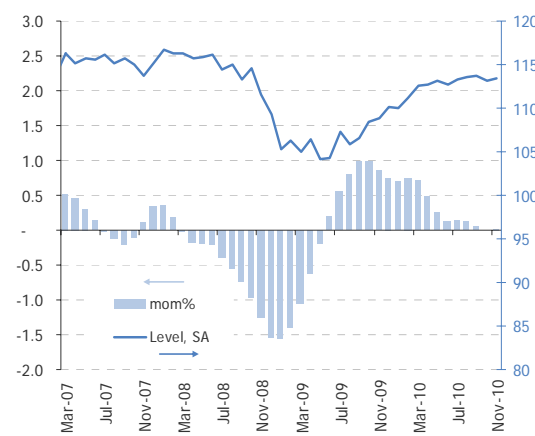
Industrial production

(y/y % change original series except m/m % change: seasonally-adjusted (SA))

	2009				2010			y/y	m/m
	I	II	III	III	I	II	III	Nov-10	
Industry	-9.3	-10.9	-6.6	-2.4	5.1	7.9	6.3	5.3	0.2
Mining	-2.9	-1.6	-1.9	-3.4	1.8	3.3	3.0	1.1	-0.1
Electricity	-1.5	0.8	4.6	4.0	0.8	2.6	3.0	2.8	0.7
Construction	-5.3	-7.6	-6.1	-6.6	-3.5	-1.6	1.0	5.7	1.2
Manufactures	-13.3	-15.6	-9.0	-0.9	10.2	13.8	9.8	6.6	0.5

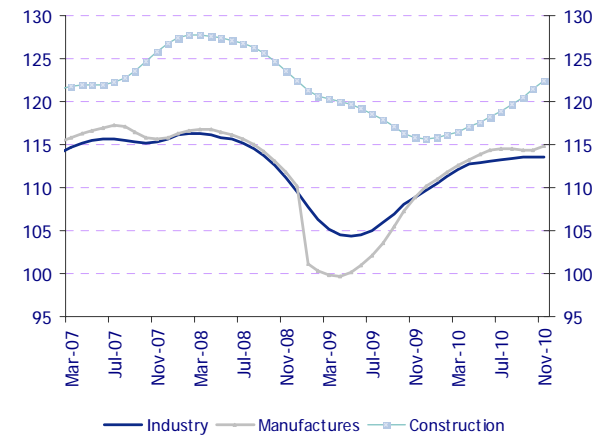
Source: BBVA Research based on INEGI data

Chart 1
Industry (m/m % trend and level)



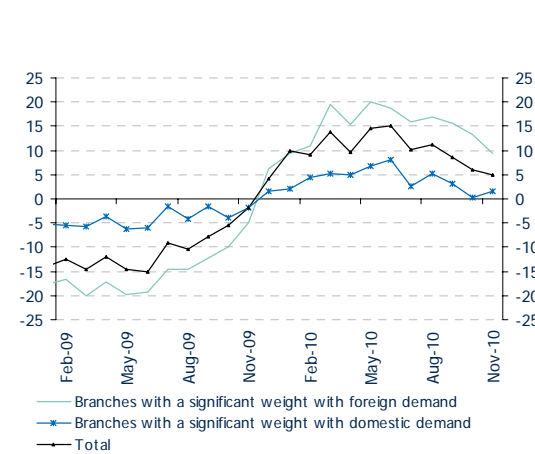
Source: BBVA Research based on INEGI data

Chart 2
Industrial production (2003 indices = 100, trend series)



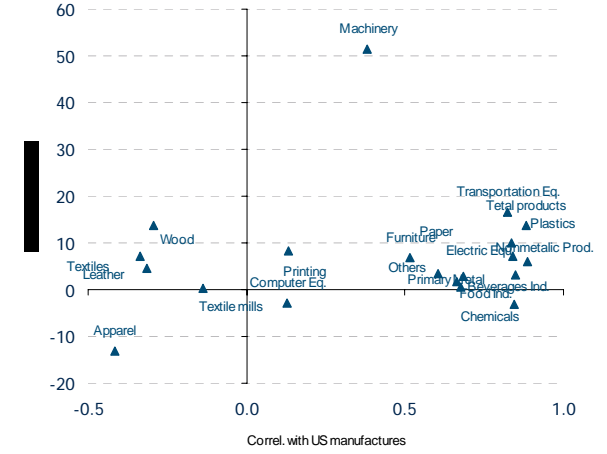
Source: BBVA Research based on INEGI data

Chart 3
Manufactures: branches (% y/y change)



Source: BBVA Research based on INEGI data

Chart 4
Manufactures Mexico-U.S. (correlation and % y/y change Nov 10)



Source: BBVA Research based on INEGI data

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