

Economic Watch

Mexico

Incipient manufacturing slowdown in Mexico

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Economic Analysis

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Industrial Production March 2011

- **The decrease in industrial production for the second consecutive month in March points to a slowdown continuing in April due provisionally to the fall in Japanese automotive production.**
- **In the expectation of higher manufacturing production effect in April, we believe these reductions to be temporary.**
- **A lag in construction remains and there are no signs of recovery.**

For the second month in a row, industrial production decreased over the previous period. Coming in below forecasts (0.4% m/m BBVA Research), production fell -0.2% m/m, equal to 3.2% y/y (4.2% without seasonal adjustment). The fall in production is due to below-forecast dynamics in manufacturing (-0.4% m/m) and construction (-1.0%).

The rise in transport equipment stood out in manufacturing - the only area to see positive figures in the bi-monthly average for January-February 2011 and also positive in March. The good performance in transport equipment was a counterpoint to the manufacturing total since other areas with a high weighting such as food, plastic and basic metals saw a major fallback in March (see chart 3).

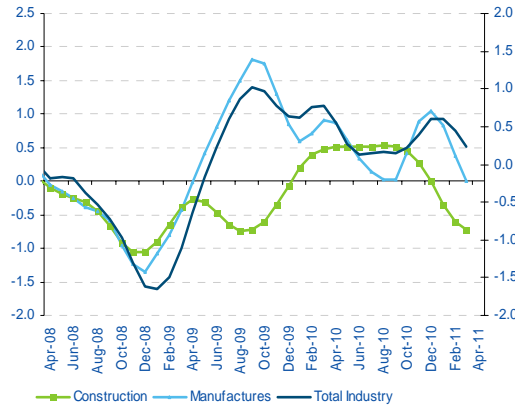
However, based on the released AMIA data for automotive production, some negative effects linked to the earthquake and tsunami in Japan can be seen for April. Vehicle production fell 10.4% y/y in April, mainly due to the technical stoppages in July and August that usually take place to prepare production of new models being brought forward. These stoppages were more intense at Japanese plants since their share in total production fell five points in the month. In addition, this situation had an impact on the rate of new hiring. We believe this shock is temporary and we could possibly see the opposite in July and August, thus canceling out the negative effects of this month. Nonetheless, there is a negative bias for production data in April.

It should also be stated that the slowdown in manufacturing branches is especially important for those areas more linked to overseas demand, while those more linked to the domestic market saw a milder slowdown, in a low-growth context.

In turn, the construction sector saw one of the most important slowdowns in March, implying zero growth in annual terms after the expansion in the last seven months. Based on information from construction companies from February, there are signs that those areas linked to public sector production (water, irrigation and drainage, electricity, transport and oil) are decreasing their contribution to the total. This fall is offset by the incipient recovery in private building.

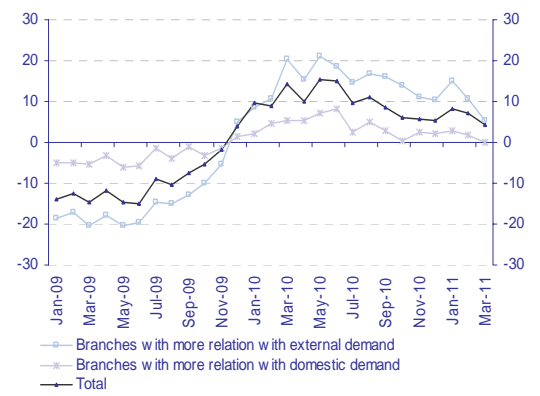
In short, industrial production for March alongside the data released to date on production and employment for April point to a slowdown at the end of 1Q11 and a weak start to the second quarter. However, we estimate this to be a temporary pause in a context of growing production.

Chart 1
Industrial Production (% change m/m, trend series)



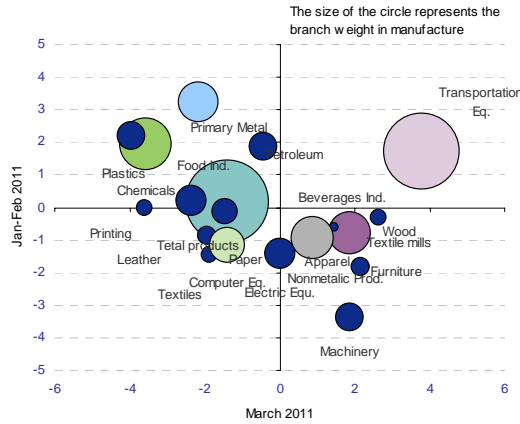
Source: BBVA Research with Banxico data

Chart 2
Manufactures: branches (% change y/y)



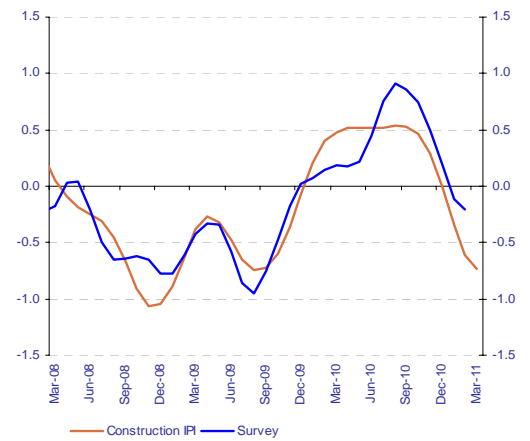
Source: BBVA Research with Banxico data

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



Source: BBVA Research with Banxico data

Chart 4
Construction: IPI and National Construction Companies Survey (% change m/m, trend)



Source: BBVA Research with Banxico data

Table 1
Industrial Production (% change y/y Original Series except % change m/m: seasonally-adjusted)

	2009				2010				yoy		mom
	I	II	III	IV	I	II	III	IV	I	Mar-11	
Industry	-9.5	-11.2	-6.8	-2.6	5.1	8.0	6.2	4.8	1.3	4.2	-0.2
Mining	-3.2	-2.1	-2.4	-3.9	1.4	3.0	2.9	1.4	1.3	-2.2	0.7
Electricity	-1.5	0.8	4.6	4.0	1.1	2.0	3.1	3.4	3.6	9.5	0.7
Construction	-6.0	-8.5	-7.1	-7.4	-3.8	-1.7	1.2	4.5	5.9	1.8	-1.0
Manufactures	-13.2	-15.6	-8.9	-0.8	10.3	14.2	9.6	6.0	7.3	6.6	-0.4

Source: BBVA Research with INEGI data

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