

Economic Watch

Mexico

Positive surprise in industrial production in May: 1.1% m/m

Industrial production May 2011

- **Industry picked up in May thanks to good performance of manufacturers, in particular in the transport and machinery industries.**
- **The temporary nature of the effects on the production chain in the motor vehicle industry as a result of the tsunami that devastated Japan has been confirmed.**
- **Construction moves ahead slowly, with greater participation of private construction.**

Industrial production figures came as a positive surprise in May, growing by 1.1%, significantly above the forecast (0.3% BBVA Research). In addition, the INEGI announced an upward correction for April from the -0.1% m/m published to the current 0.3%. Thus, year-on-year change in the industrial sector was 4.4% in May and 4.5% on average for the year, in non-seasonally adjusted terms (4.6% in the original data series).

In May, the four branches of industry grew compared with the previous month, especially the manufacturing sector (1% m/m), where corrections to the previous data are also greater (in April from the previous 0.2% to the current 0.6%). Thus, manufacturers continue above the levels posted at the beginning of the recession in mid-2008. The data for May corroborate the temporary nature of the effects on the motor vehicle industry as a result of the tsunami that devastated Japan last April. Then, the transportation equipment branch fell by (-)7.8% m/m. In contrast, last May this branch grew by 11.3% m/m (2.6% a month on average in 1Q11). The branch's weight (around 18% of all manufacturers) and positive performance of this sector are determinant factors for the improvement of manufacturers as a whole. Also worth mentioning is the performance of the beverages and tobacco branch (6.3% of the manufacturing sector), with a 5.9% m/m expansion, the highest monthly rate in nearly 14 years. The change in the rest of the branches was similar to that in the first quarter of the year, in line with a scenario of mild moderation.

The construction sector posted two consecutive months of growth (0.2 m/m in May, -0.2% a month on average in 1Q11). Although this industry is still far away from the pre-crisis level, the recovery trend continues in monthly terms. The last few months have seen a restructuring of components: greater participation of components with main contractors in the private sector, primarily "building", and gradually reduced participation in construction work where the main contractor is the public sector; work related to water, irrigation and sanitation, electricity and communications, transport, and oil and petrochemicals.

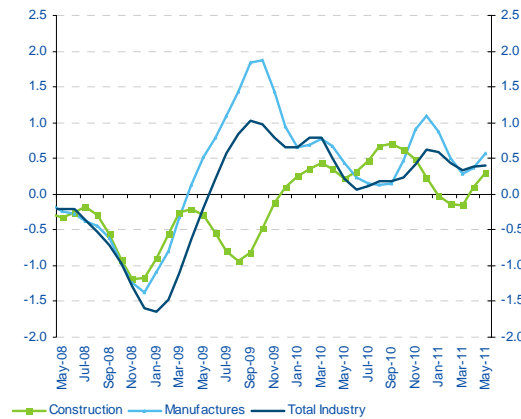
However, the available data suggests that the moderation in 1Q11 was temporary, and that industry will lead the improvement in growth in 2Q11.

July 13, 2011

Economic Analysis

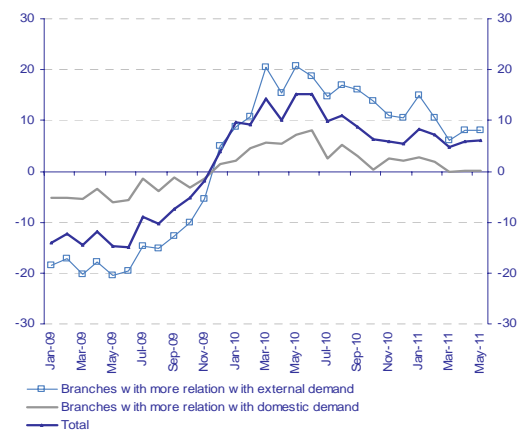
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Chart 1
Industrial Production (% change m/m, trend series)



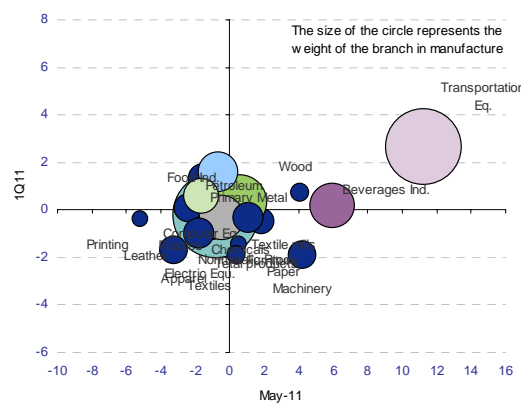
Source: BBVA Research with Banxico data

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



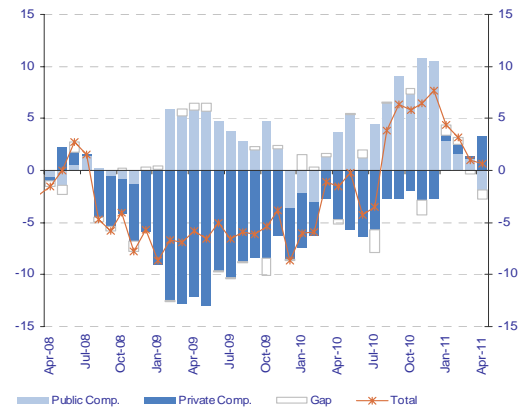
Source: BBVA Research with Banxico data

Chart 3
Manufacturing Sector Branches (% change m/m)



Source: BBVA Research with Banxico data

Chart 4
Construction Companies (% change y/y and contributions)



Source: BBVA Research with Banxico data

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

	2009				2010				yoy mom		
	I	II	III	IV	I	II	III	IV	I	May-11	
Industry	-9.5	-11.2	-6.8	-2.6	5.1	8.0	6.2	4.8	5.3	4.6	1.1
Mining	-3.2	-2.1	-2.4	-3.9	1.4	3.0	2.9	1.4	-2.8	-2.6	0.2
Electricity	-1.5	0.8	4.6	4.0	1.1	2.0	3.1	3.4	8.6	7.2	0.0
Construction	-6.0	-8.5	-7.1	-7.4	-3.8	-1.7	1.2	4.5	5.0	3.8	0.2
Manufactures	-13.2	-15.6	-8.9	-0.8	10.3	14.2	9.6	6.0	7.6	6.8	1.0

Source: BBVA Research with Banxico data

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