

Mexico Flash

Industrial production contracts in October (-) 0.9% m/m. Fall in demand from external sources, the key.

- The dynamics of the industry was worse than expectations derived from an outer loop that continues to moderate.
- Particularly relevant are the fall in the construction industry (-) 1.2% m/m and manufacturing (-) 0.9% m/m, in annual terms, the industry grew 2.1% (3.6% in the series not seasonally adjusted)
- The dynamics of the industry in October is consistent with a fourth quarter significantly lower than the third and in line with the expected GDP for the year of 3.7%.

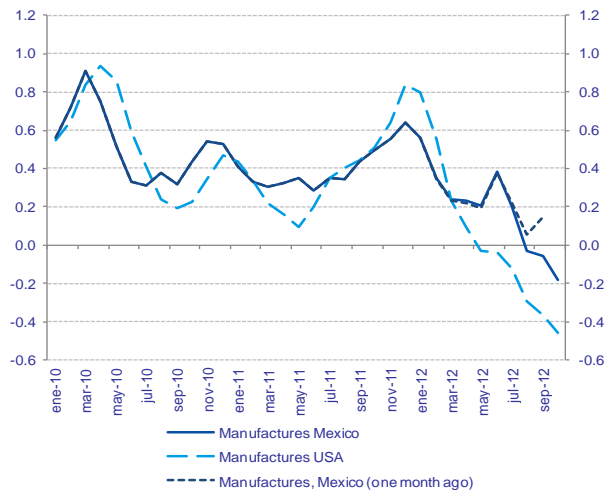
Below our expectations (+0.1%), industrial production contracts (-) 0.9% m/m in October, bringing the annual variation of seasonal effect corrected stood at 2.1% (significantly lower than the variation in the series is not seasonally adjusted, 3.6%). The fall in monthly terms is a result of the contraction in three of the four branches that comprise: (-)1.2% m/m in electricity, gas and water and construction industry and 0.9% in manufacturing. The dynamics of the industry is well in line with the decline in growth from the external market, remember that last October U.S. industrial production contracted (-) 0.4% monthly rate, resulting in the manufacturing side of lower production in both durable goods (-) 0.6% as not durable goods (-) 1.0%. This contraction in demand from the U.S. has already affected Mexican manufacturing exports, which in August-October quarter were down on average (-) 1.1% m/m and is consistent with the moderating trend in the expected volume of orders, which includes timely feelings of manufacturing producers.

On the manufacturing side, the contraction in October is a result of the decrease in production in key industries, particularly the automotive and food production. In the first case, the transport equipment industry whose weight is about 18% of manufacturing, went from a slight contraction of (-) 0.1% on average in the 3Q12, to a fall (-)4% in October . Remember that just over 80% of automobile production is directed to the external market. For the food industry (weight of 22% of manufacturing), growth of 0.3% in Q3 monthly average contrasts with the fall of (-) 1.3% m/m in October. While the dynamics of other branches had greater dispersion, the contraction in the two mentioned is key in manufacturing. Branches with important relation with external demand (correlation between the branch and the U.S. industry than or equal to 0.6), were down on average (-) 1.5% in monthly terms and (-) 0.6% in other branches.

The construction industry showed a monthly contraction (-) 1.2% (1.1% y/y serial both at seasonal adjusted series) explained by the contraction in its four components. Remember that based on data from the National Survey of Construction Companies, until the third quarter highlighted the contribution of the private component in the growth of the construction value in real terms.

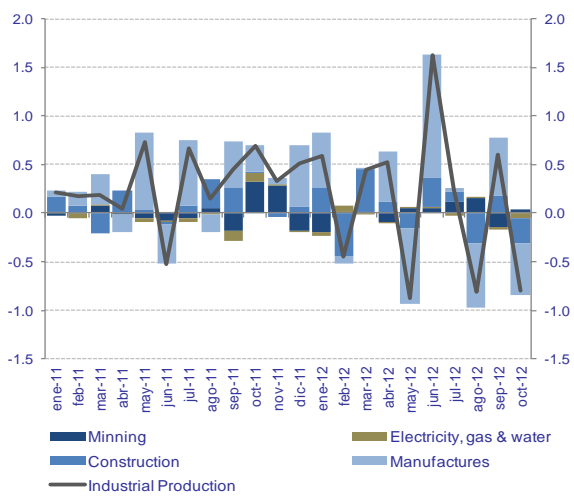
Although the short-term information related to Q4 is still scarce, known so far is in line with the forecast that moderation will have been more pronounced in the reference quarter. It should be mentioned that so far the momentum in total employment and industry continues (change 0.4% m/m), which will be key for private consumption towards the end of the year, however production indicators and confidence, begin to record signs of moderation. **We maintain the GDP growth forecast of 3.7% or slightly higher for the year.**

Graph 1
Manufacture production, trend (m/m%)



Source: BBVA Research

Graph 3
Industrial Production & Contributions (m/m%)



Source: BBVA Research

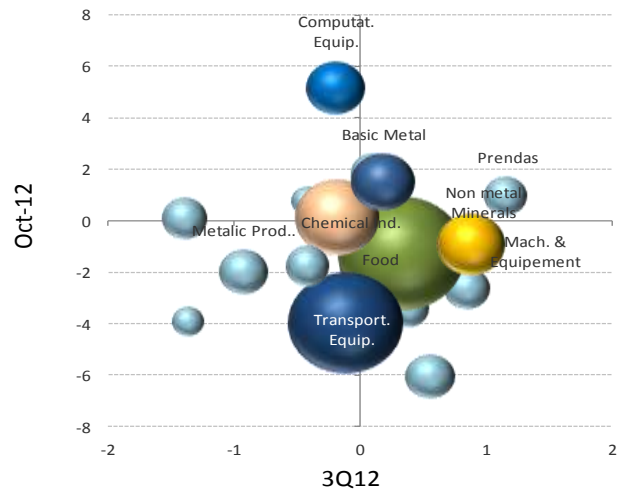
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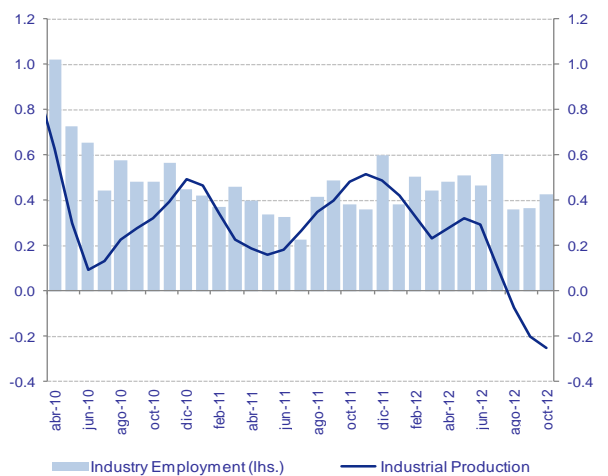
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Graph 2
Manufactures & components, quarterly average m/m% and October m/m%



Source: BBVA Research

Graph 4
Industrial production & employment (m/m%)



Source: BBVA Research