

Mexico Flash

Industrial production, with sharp drop in April. Confirms and amplifies the negative trend

- Far below expectations, industrial production showed relapse in April, due to the contraction in three of its four components, manufacturing and construction particularly relevant
- While waiting for new indicators of 2Q13, the dynamics of the April print industry downward bias in the forecast of quarterly GDP. However maintain forecast for the year, subject to improvement in the second half of public spending and recovery in external demand.

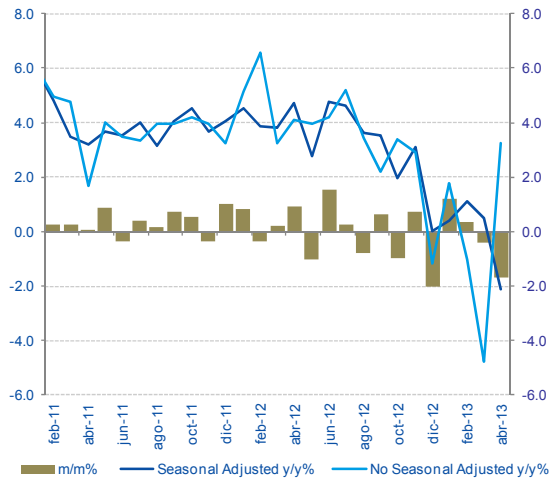
Industrial production fell sharply in April, showing the second largest drop since June 2009, in terms of monthly change: -1.7% (-2.1% y/y, seasonally adjusted series). This drop is due to the contraction in three of the four components that comprise it. In April highlighted the fall in the mining sector (-2.9% m/m), followed by the construction industry (-3.1% m/m) and manufacturing (-1.2% m/m). With the change in the industry published today, confirms and deepens the moderating trend in activity in the first months of the year.

The manufacturing industry contracted in April influenced by the fall in 15 of the 21 branches that comprise, prominently by falling branches with great weight and transport equipment, beverages and snuff and chemical industry. Overall, the dynamics in the fourth month of the year was worse than in the first quarter, decisive influence was the shrinkage in the field of transport equipment, with -1.5% m/m, remember that this branch contributes 12.8% of the industry. It should be noted that while automobile production reported by the AMIA expanded in the order of 15.7% m/m, is framed in the context of moderation in the industry, deepened in April, particularly for the lower production of trucks, tractors and buses. Grouping manufacturing branches by their degree of connection with external demand has to be related to the branches the outer loop are the biggest drop occurred in April (-1.7% m/m on average), while the branches related to domestic demand remained flat growth in April.

Meanwhile, **in the construction industry was notable the contraction in the three elements that compose it,** falling particularly relevant in building component (-4.2% m/m), followed by engineering (-2.9% m/m).

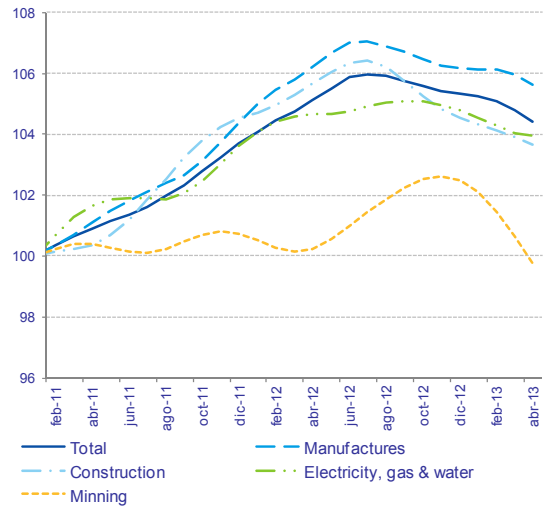
The dynamics shown by the industry in April confirms and deepens the moderating trend in the first months of the year. Under related indicators, we believe that this moderation could last a few months. In particular indicators available for May as producer confidence and and ISM for the US and IMEF for Mexico, suggest that the feeling of manufacturing producers will have decayed to May: -0.2% m/m producer confidence; 49 points ISM IMEF U.S. and Mexico, ranking in the area of contraction for the first time in about 6 months. Despite this, we believe that external demand will have to show more signs of improvement determined by the second half of the year, while the activity will benefit from increase in public sector demand as it has had a delay in its implementation. **We maintain growth forecast of 3.1% for the year, but with a downward bias.**

Graph 1
Industrial Production: (y/y & m/m)



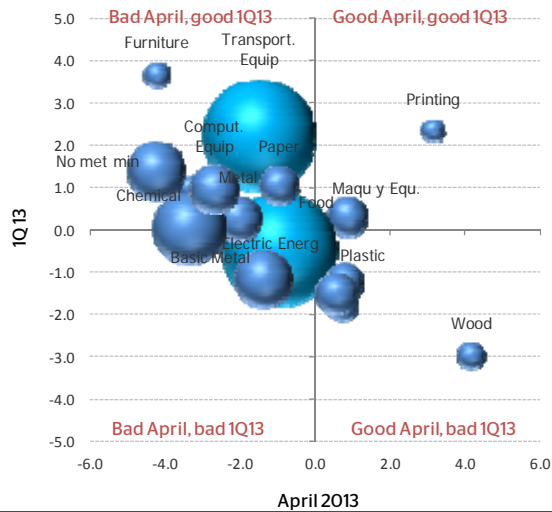
Source: BBVA Research

Graph 2
Industrial Production: trend, Jan11=100



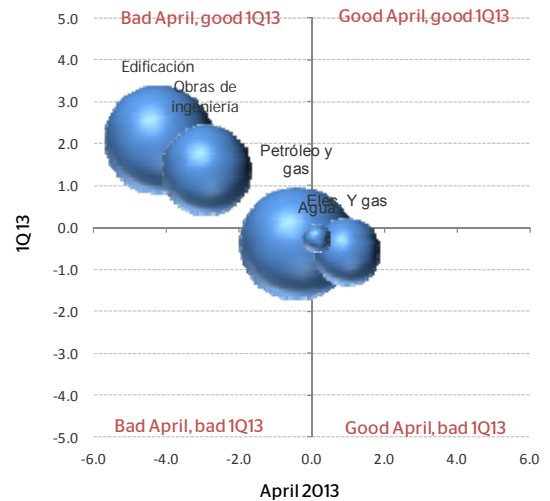
Source: BBVA Research

Graph 3
Industrial production, manufactures 1Q13 and April13 (y/y% average)



Source: BBVA Research

Graph 4
Industrial production, construction mining and electricity 1Q13 y April 2013 (y/y% average)



Source: BBVA Research

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