

Industrial Production

Industrial production shows a robust increase in April, mainly driven by manufactured goods

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According to INEGI, Mexico's April industrial production expanded 2.5% YoY sa, equivalent to 0.6% MoM sa.

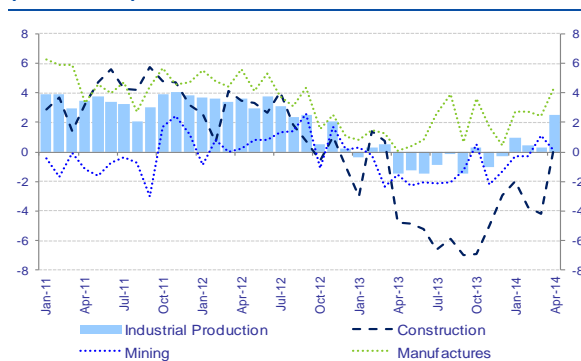
This acceleration was mainly driven by a significant YoY increase in the manufacturing sector (4.4%). Electricity, Gas and Water increased 3.7% YoY, Construction grew 0.3%YoY, and mining 0.1% YoY.

The substantial improvement in manufacturing seems to suggest that external demand is picking up, but the weakness of other sectors leads us to believe that more time is needed before this improvement translates to domestic demand.

According to data from INEGI, April's industrial production had a 0.6% MoM sa growth, which was slightly above our forecast and below the consensus (BBVA Research: 0.4%, consensus: 0.9%). This positive result was mainly due to a substantial increase in manufacturing (1.1% MoM, sa). Meanwhile, Electricity, Gas and Water grew 1.3% MoM, sa, Construction increased 0.6% MoM), but mining fell 0.4% MoM, sa.

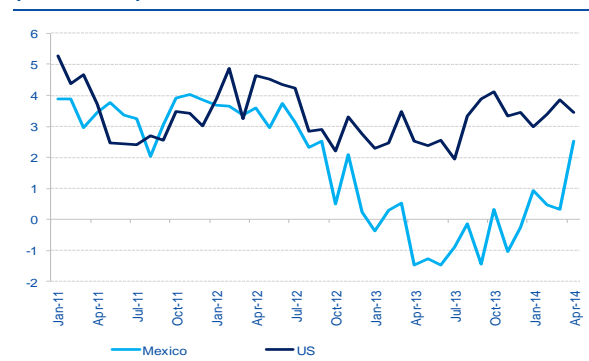
The industrial sector's performance in April, especially in manufacturing (see Figure 1), is in line with our 2014 economic growth forecast (2.5%). If U.S. industrial sector continues to expand this year, especially the manufacturing output, we can expect continuous, albeit moderate, growth for Mexican industry. However, the gap between the growth of industrial production in Mexico and the United States, our largest trading partner (see Figure 2), still holds. This seems to be linked to the weakness in some sectors which rely more on domestic demand, but which we expect to show more significant recovery from 2H14 onwards.

Figure 1
Mexico: Industrial Production and components (YoY %, sa)



Source: BBVA Research with INEGI data; sa = seasonally adjusted.

Figure 2
Industrial Production: Mexico and the U.S. (YoY %, sa)



Source: BBVA Research with INEGI data; sa = seasonally adjusted.

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