BBVA | RESEARCH

Economic Analysis
July 12, 2013

Mexico Flash

Industrial production rebounded in May, partially offsetting the sharp decline in April. The trend remains of moderation.

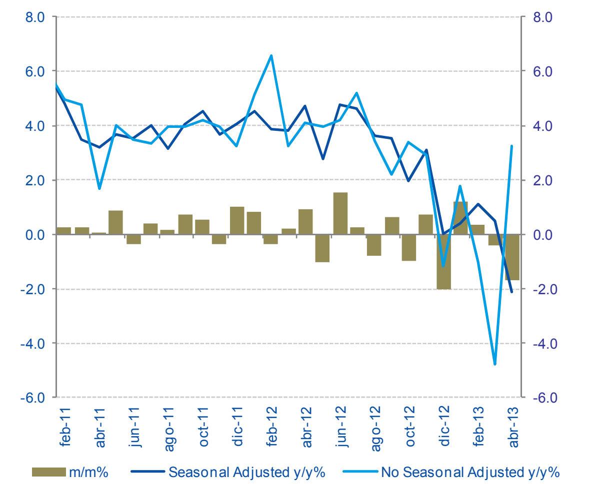
- Above expectations (-0.2% m/m consensus), industrial output in May rose 1.4% m/m (0.5% y / y). With respect to the previous month the four components advanced strong although annual rate grew only in manufacturing branch.
- Despite the good figures for May, it is likely that the dynamics of the industry in the second quarter results lower than the forecast earlier this year, and thus GDP.

Towards the second half of the year will be crucial the degree of progress in North American industry and the recovery of Mexican public spending. Industrial production rose well above that expected by BBVA Research and consensus (-0.2% m/m), advancing 1.4% m/m yet involved in growth of just 0.5% y/y on series seasonal adjusted. Despite being a very good monthly advance, the volatility that has characterized the industry indicator in recent months leads to the average of the last few months as a better reference on the behavior of specific data series. In this regard, it is worth noting that the average April-May period, suggests that industrial dynamics remains being of moderation: both annual and monthly growth rate averages are negative.

Observed rebound occurred in three of the four branches which make up the industry and in most branches of manufacturing and construction components. In manufacturing (1% m/m in May, -0.9% m/m in April), the key branches by their weight and linkage to external demand showed an improvement, example of this is transportation equipment (0.8% m/m May, -1.7% m/m in April), computer equipment (3.2% m/m in May, -3.1% m/m in April), non-metallic mineral production (3.1% m/m in May, -4.5% m/m in April), fabricated metal products (1.7% m/m in May, -2.3% m/m in April), to name a few cases. **With this pattern, the average two months of progress in manufacturing was nil. In the construction industry,** despite the growth in May was high (2.5% m/m in May, -3.8% m/m in April**), the trend indicator maintains construction involving drop profile.**

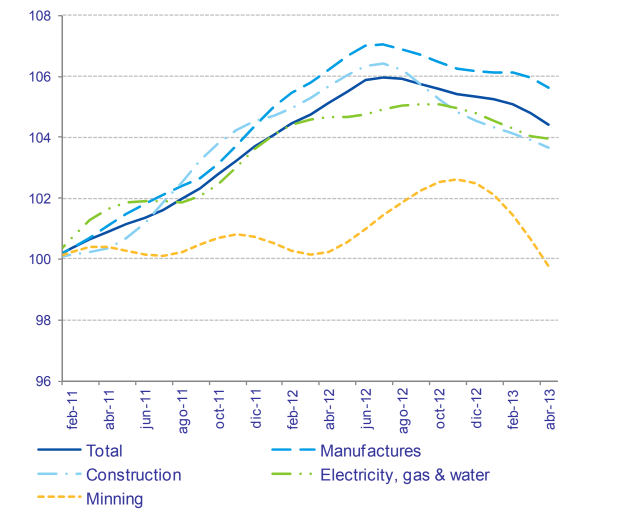
Based on information in May, the industry trend seems to make a slight pause in the strong moderation observed in the first four months of the year. However, recent data of producer confidence indicators for June, suggest that moderation will have continued into June. Remember that the producer confidence indicator in June showed the largest drop since April 2012, and the fourth month of decline for the last five months. The IMEF index has 50 points as a threshold that separates signals optimism of pessimism, in June stood at 47.3 points, showing decline for the fifth consecutive month in terms of the level trend lowest since June 2009. Based on these indicators as well as auto production in June that involved a decrease in the production equivalent to (-)0.5% per year, we expect the moderation in industry to continue, confirming **a weak industry performance and downward bias for GDP growth in 2Q13.**

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



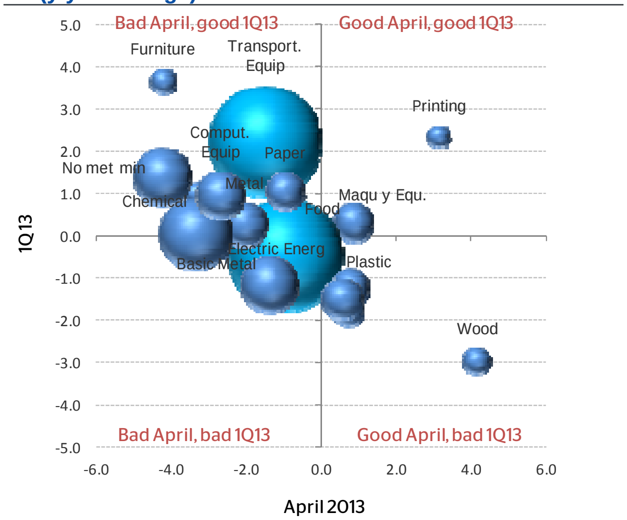
Source: BBVA Research

Graph 2
Industrial Production: trend, Jan11=100



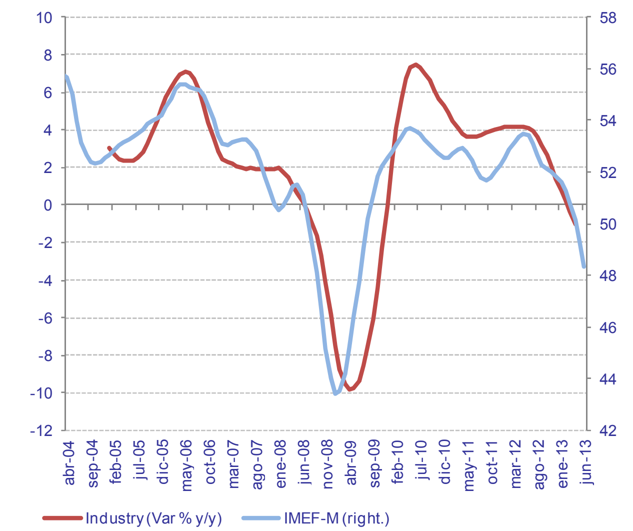
Source: BBVA Research

Graph 3
Industrial production, manufactures 1Q13 and April-May 13 (y/y% average)



Source: BBVA Research

Graph 4
Trend, industry yoy% and IMEF index



Source: BBVA Research

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