

Mexico Flash

In January 2014 industrial production surprised to the upside, driven solely by manufactured goods.

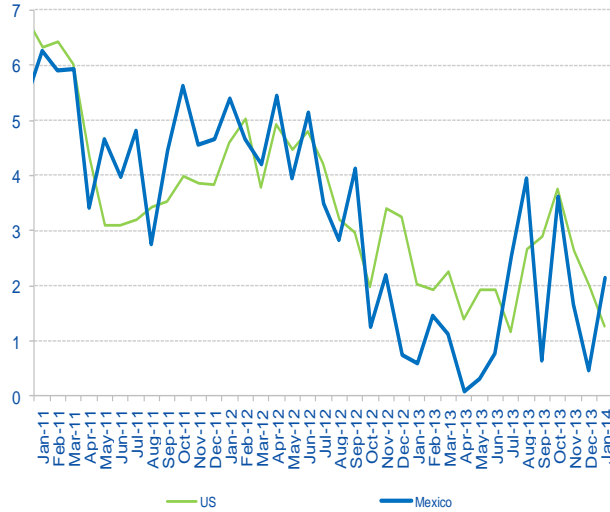
- According to the INEGI, Mexico's January industrial production grew 0.5% compared with December 2013, seasonally adjusted (sa). YoY growth was 0.8%, sa.
- This acceleration was mainly due to a significant MoM increase in the manufacturing sector (2.34% MoM). In contrast, construction (-1.23% MoM), electricity, gas and water (-0.90% MoM) and mining (-0.06% MoM) all fell.
- The substantial improvement in manufacturing seems to suggest that external demand is picking up, but the weakness of other sectors leads us to infer that more time is needed before this improvement translates to domestic demand.
- Industrial sector performance in January continues in line with our scenario of economic growth for the country in 2014, at 3.4%.

According to data from INEGI, January's industrial production had MoM growth of 0.5%, above BBVA and the consensus forecast (BBVA Research: 0.33%, consensus: 0.40%). This positive result was mainly due to a substantial increase in manufacturing (2.34% MoM). Meanwhile, construction (-1.23% MoM), electricity, gas and water (-0.90% MoM) and mining (-0.06% MoM) all fell.

On an annual, seasonally adjusted, comparison industrial production increased 0.8% over the same month in 2013. By sector, manufacturing grew 2.1% as a result of a rise in: transportation equipment subsectors; basic metal industries; the food, plastics and rubber industries; computer, communication and other measuring equipment; electronic components and accessories; ancillaries, electronics and electrical generation equipment; and other manufacturing industries, in particular. Meanwhile, construction fell 1.8% due to a reduction in civil engineering and building projects, although specialised construction jobs increased slightly. Electricity generation, transmission and distribution, water supply, gas pipeline extensions to consumers and mining all had zero growth.

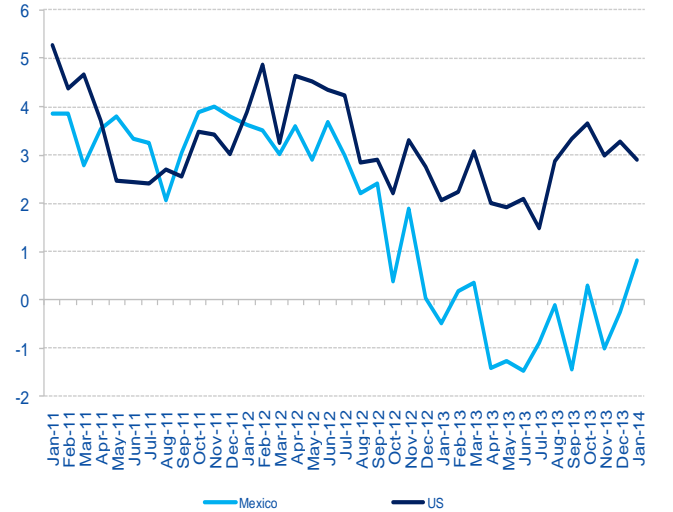
The industrial sector's performance in January, especially in manufacturing (see Figure 1), continues in line with our 2014 forecast for the country's economic growth (3.4%). If U.S. industry grows this year, especially in manufacturing output, we can expect continuous, while moderate, growth for Mexican 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 2Q14 onwards.

Figure 1
Manufacturing Production: Mexico and the U.S.
 (% 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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