

# Mexico Flash

## The negative surprise in February industrial production does not impair the prospects for activity

- Industrial production in February recorded its biggest monthly drop since May 2009, with decreases in both construction (-2.7% m / m) and manufacturing (-1.4% m / m).
- The decline is influenced by seasonal adjustment, almost two standard deviations from the average for February. With the average seasonal (8 years) adjustment, the IPI would have risen 1.2% m / m, not fallen 1.7% m / m.
- In addition, all other activity data and expectations does not point to a steady decline in industrial activity, so we maintain our view of quarterly growth of GDP higher than the 4Q11 1Q12.

Negative surprise of industrial production in February: -1.7% m / m observed vs. 0.3% expected by BBVA Research. **Bad data is focused on construction components and manufacturing**, in both cases more pronounced falls in 30 and 6 months respectively. In contrast, mining (3.4%) and electricity, gas and water (4.5%) showed important rates of growth. In annual terms the change in seasonally adjusted industrial production located at 1.7% above a year earlier, which differs considerably from the 5.9% of the uncorrected data for seasonality. **In this regard it is noteworthy that the seasonal adjustment by INEGI this month in all relevant components is significantly different from the average held in February.** Thus, with average seasonal factors (eight years average), the monthly change would have been a rise 1.2% m / m. It seems reasonable that at least in March, seasonally adjusted also be far from the typical patterns of the month.

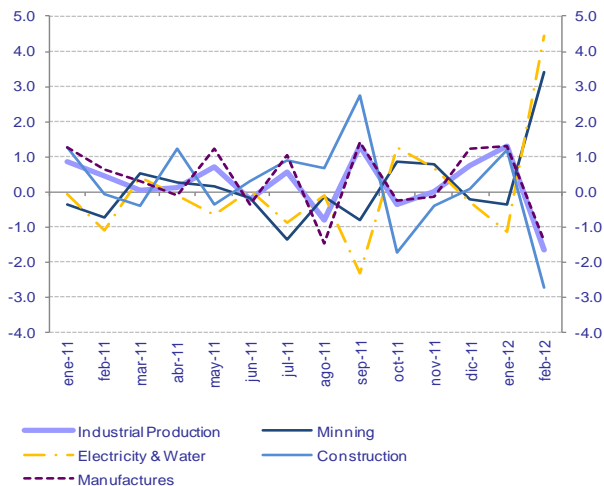
In this sense, to relativize the signal given by the intensity of the fall, other indicators do not provide elements of inference to assume an immediate and sudden deterioration in the industry. Thus, in the reference month, while manufacturing in Mexico fell (-) 1.4% monthly U.S. manufacturing grew 0.3%, the ISM indicator of that country remained in expansion zone, automobile production grew about 12% monthly, producer confidence grew 1.4% monthly and finished goods inventory did in 1.2%. It should be noted that in all cases, the indicators cited are located far better off than those observed in the month of August, where the industry fell (-) 1.5%. This set of indicators along with the significant seasonal effect observed lead us to believe that the negative item Feb. **industry is a temporary blip and shall not constitute, predictably, a shift in the series.**

On the other hand, analyzing the components of the manufacturing and construction, monthly falls occurred in 15 of the 21 branches of all manufacturing and in all branches of construction. These declines were accused in both components most strongly associated with external and internal demand.

However, BBVA-MICA indicator variables including short-term real and financial sector, continues to indicate that the first quarter GDP growth will be slightly larger than the 0.4% q / q reported in the last quarter of 2011, what keeps the expectation of growth in the average of 2012 above the official forecast of 3.3% BBVA Research.

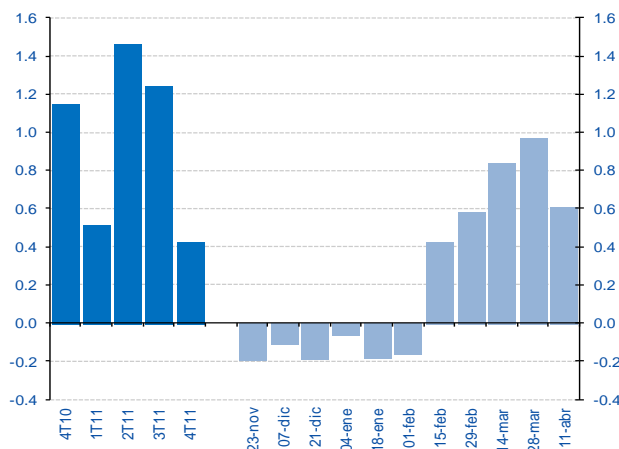
Additionally, in regard to the possible implications of data now known in the outlook for monetary policy, we reiterate our forecast of monetary pause, the data of **today's industrial activity does not increase the probability of a cut in funding. However, given the intense debate in the last minute about a possible cut**, we must be attentive to the information that is coming, and in particular, inflation in the 1st half of April and indicators of activity and views on U.S. economic scenario and the FED.

**Graph 1**  
**Industrial Production (m/m%)**



Source: BBVA Research

**Graph 3**  
**MICA-BBVA Bancomer, 1Q12 estimation**

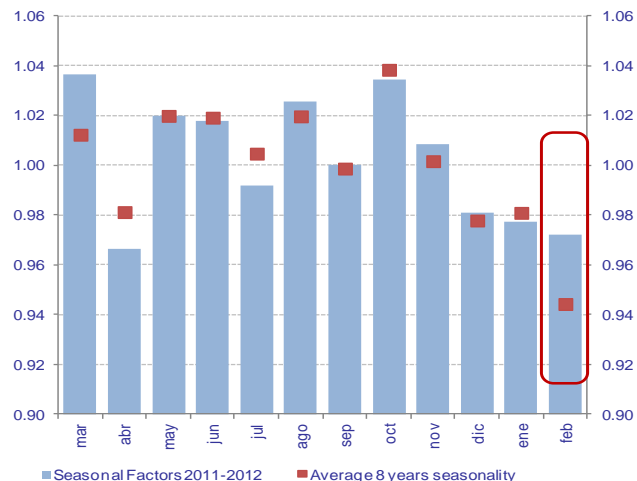


Source: BBVA Research

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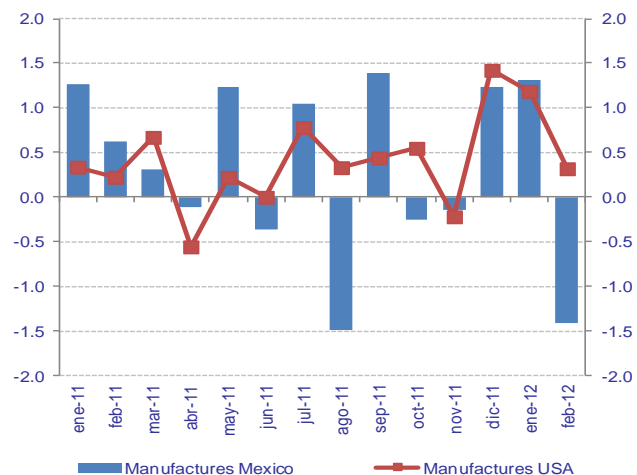
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**Graph 2**  
**Seasonal Adjustment Factor (NSA / SA): Industrial Production**



Source: BBVA Research

**Graph 4**  
**Manufactures, Mexico & USA (m/m%)**



Source: BBVA Research

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