

Economics Group

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Construction and Mining Drive Mexican Production Lower

Third quarter Mexican economic data started weak with industrial production declining 1.0 percent in July versus June, and 1.6 percent compared to July of last year. Construction and mining were the culprits.

Construction, Mining and Utilities Are to Blame

Industrial production in Mexico started the quarter on a negative note with construction activity declining 2.1 percent versus June, seasonally-adjusted, mining activity declining 1.4 percent and utilities output down 0.3 percent. Clearly, construction output has been affected by higher interest rates this year. These three sectors have continued to drive industrial output lower, with mining output down 8.6 percent on a year-earlier basis, construction output down 3.7 percent and utilities output down 2.7 percent, all compared to the previous year.

One of the most disappointing results for July was the fact that in the preceding month, mining output was actually improving somewhat or at least no longer declining. The July report indicates that the deterioration in the sector has resumed once again.

As we said above, industrial output was down 1.6 percent on a year-earlier basis versus a 0.3 percent decline for the year ending in June. Year-to-date, industrial activity fell 0.5 percent through July compared to the same period a year earlier.

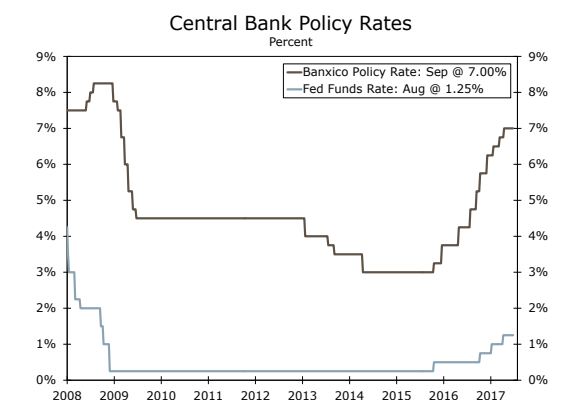
As has been the case other times this year, the only bright spot on the Mexican industrial side is still its manufacturing sector, which is mostly driven by its automobile production.

Manufacturing Activity Is the Exception

Perhaps one of the most important reasons why the current NAFTA renegotiation process taking place between the United States, Canada and Mexico is so important is that the Mexican automobile sector is one of the most important sectors of Mexican manufacturing activity, and this sector is growing at a very fast pace. Mexican manufacturing activity increased 0.3 percent in July compared to June, while it increased by 2.2 percent on a year-earlier basis. Although manufacturing activity was the only positive sector of industrial production in July, the sector has also slowed according to the year-over-year index.

Automobile, light trucks and parts production increased 9.8 percent on a year-earlier basis in July and is up 11.4 percent year-to-date through July 2017. Although it is not the only manufacturing sector that is growing, it is the most important sector of Mexican manufacturing activity.

Thus, the results of the renegotiation between the United States, Mexico and Canada on the future of NAFTA will be of utmost importance for the performance of the Mexican economy, especially because much of the automobile sector's output is exported to the United States. That is, any negative decision regarding auto exports from Mexico to the United States market will be a big negative for the Mexican industrial sector and for the Mexican economy as a whole.



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