



Economics Group

Eugenio J. Alemán, Senior Economist
eugenio.j.aleman@wellsfargo.com • (704) 410-3273

Mexican Industrial Sector Remained Weak in April

The Mexican industrial production index declined 0.4 percent sequentially in April with a very weak performance from the manufacturing sector, down 2.3 percent, not annualized.

Industrial Production Started Q2 as It Ended Q1: Weak

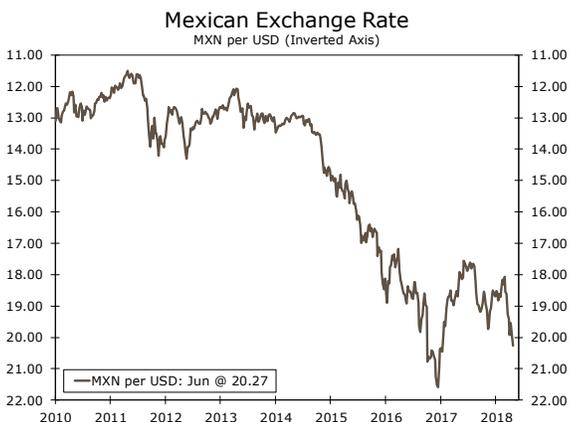
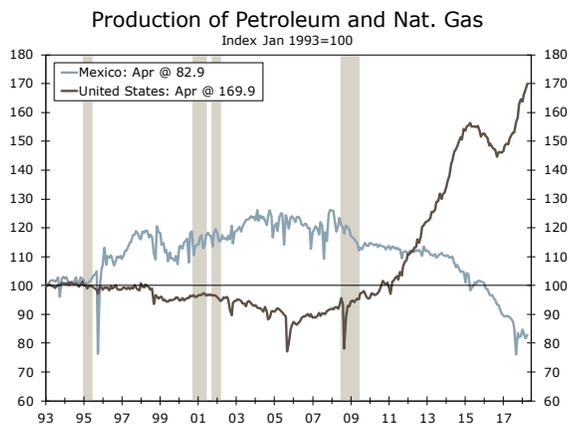
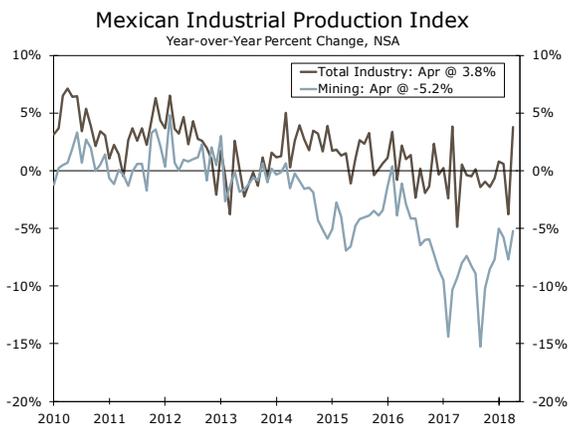
Mexican industrial production declined 0.4 percent sequentially in April, with much of the weakness allocated to manufacturing activity, where output declined 2.3 percent, not annualized. Construction activity was also weak, down 0.6 percent, whereas public utilities and mining were up during the month sequentially, 4.9 percent and 1.4 percent, respectively, and not annualized.

The picture was a bit better from the year-earlier numbers. On a non-seasonally adjusted basis, industrial production was up 3.8 percent, with mining declining 5.2 percent, public utilities output up 4.5 percent and the manufacturing sector up 5.6 percent. However, these numbers may be distorted, due to seasonal factors related to the timing of the Easter holiday this year versus last year. It is telling that industrial production was down 3.8 percent on a year-over-year basis in March and rose the same amount in April on a year-earlier basis. Perhaps even more telling, is that during the first four months of the year industrial production was up only 0.3 percent compared to the year-earlier period.

Still, much of the weakness in industrial production continues to reside in the country's petroleum sector. Petroleum and natural gas extraction during the first four months of this year decreased 6.9 percent compared to the same period a year earlier, while services related to the mining sector declined 11.0 percent. Meanwhile, manufacturing of petroleum derivatives dropped 28.8 percent during the period.

Uncertainty Will Continue To Weigh on Industrial Production

Domestic and external uncertainty will remain front and center during the next several months and quarters for the Mexican economy. On July 1 presidential elections will be held, and the expectation is that Andrés Manuel López Obrador (AMLO), the left-wing populist, will finally win the presidential contest. Meanwhile, the NAFTA renegotiation process has not ended. Many Mexicans would have wanted the process to end before the presidential election, as AMLO's comments regarding NAFTA have never been positive. If victorious, AMLO will not take office until December of this year. But, if he wins he will ask the Peña Nieto administration to hold off on new rounds of NAFTA renegotiations, delaying the negotiations further. But, perhaps what is worse, is that the current state of NAFTA renegotiations is in limbo. Furthermore, the U.S. administration has been trying to divide the negotiations by calling for bilateral trade negotiations between the U.S. and Canada and the U.S. and Mexico, while also pressing both countries for a five-year sun-setting clause that will push the three countries to renegotiate the agreement every five years, something that Canada and Mexico vehemently oppose.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES