Industrial production – Generalized weakness, although still with a positive outlook

- **Industrial production (November): 2.8% y/y nsa; Banorte: 4.8; consensus: 4.9% (range: 3.9% to 6.2%); previous: 5.6%**

- **Sequentially, industry fell 1.0% m/m, its biggest setback so far in the year. All its components declined, with weakness concentrated in construction (-2.9%) and mining (-1.4%). Manufacturing was more modest at -0.5% –with 10 of the 21 categories inside to the downside–**

- **Despite today's results, we believe that the outlook for construction continues to be favorable, with its main drivers still in play. However, the outlook for manufacturing is more complex, considering a still challenging global backdrop**

- **In this sense, we believe that the performance of the sector in the first half of 2024 will continue to be supported by construction –mainly due to efforts to finish key projects–, although we do not rule out that additional resilience in the US could provide some support to manufacturing**

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Moderation in industry's annual pace of growth. Production increased 2.8% y/y (see Chart 1), below consensus (4.9%) and our estimate (4.8%). Inside, construction once again was the main driver with an 18.0% increase –although with a relevant moderation vs. October. Manufacturing was also lower at -0.3%, while mining was the weakest at -2.4% (Chart 2). With seasonally adjusted figures, the result s was slightly higher at 3.0% y/y. For details, see Table 1.

Sequentially, industry posted its largest setback so far in the year. Industry declined 1.0% m/m (Chart 3), ending with eight months of gains. Even though all components inside fell, we believe that it does not necessarily reflect the cyclical position of the economy, acknowledging that several drivers of activity still are in play. In this sense, we believe that the result suffered from some adverse circumstantial factors: highlighting: (1) Some weakness in US industry, with the auto sector restarting production after the UAW strike; (2) some uncertainty regarding the performance in other regions (*e.g.* China and Eurozone); and (3) a slowdown in some construction projects given that the end of the year was near.

In this sense and leading losses, construction decreased 2.9%. Although the result is skewed by a challenging base effect, it is relevant to mention that the sector had experienced higher volatility in the last three months relative to what we saw earlier in the year. Therefore, edification fell 4.0% –not enough to erase the 5.1% gain of the previous month–, while civil engineering works backtracked 1.0%. More positively, specialized works grew 1.3%, adding two months of improvements.

Mining fell 1.4%, impacted by the volatility of services related to the sector (-19.6%, previous: 10.2%). Meanwhile, the oil-related component was unchanged (0.0%), in line with mixed production data from Pemex and the CNH. Lastly, the non-oil component rose 0.6%, breaking with three months of declines and positive at the margin considering a still challenging outlook regarding some raw materials prices.

Manufacturing came in at -0.5%, adding to the -0.4% of the previous month. Inside, 10 of the 21 categories declined. Among the most relevant results, we highlight a 3.0% fall in transportation equipment, even despite the auto workers' strike having ended in the last days of October. In addition, other items with relevant declines include textile raw materials (-3.5%), metal-based goods (-4.9%) and machinery and equipment (-2.6%).

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On the positive side, we highlight a strong rebound on oil- and carbon-related products (15.5%), ending four months of losses, as well as an improvement on electronic items (0.8%). For more details see Table 2.

We expect industry to continue contributing to economic growth in coming months, although we do not rule out some divergence between sectors. We believe that the factors that have driven industry during most of 2023 will continue in the short-term. So, we think that the two key factors that will keep setting the trend are: (1) Uncertainty regarding the performance of external demand; and (2) strength in domestic components. Regarding the former, most recent signs in the US suggest that the 'soft landing' could materialize, although weakness in other regions still implies relevant challenges. On the former, we believe that this trend will continue al least during 1H24, giving relevant support to the sector.

In detail, construction maintains elements to continue with its favorable performance, highlighting: (1) Infrastructure spending by the federal government, still focused on the conclusion of the *Tren Maya* and the *Corridor Transístmico* and (2) higher demand for industrial spaces –and eventually housing– in areas positively impacted by nearshoring. In this context, and in line with what was mentioned before, it is very likely that the sector will maintain strong growth rates in coming months, moderating in the second half of 2024.

Regarding mining and manufacturing, these will continue to be influenced mainly by external dynamism. So, on the positive side, we believe the soft landing in the US could provide some relief in the short-term. In addition, and specifically for the auto sector, the outlook for auto parts and auto assembly is positive. According to AMIA, some of the key drivers for the sector include: (1) Production of hybrid and electric vehicles in the country –which began in 4Q23 and will continue to expand in 2024; and (2) a higher interest on units manufactured in Mexico. Moreover, INA estimates growth of 3.1% y/y for auto parts in 2024. However, in broad terms, downward risks also persist. One of the main concerns continues to be the low dynamism of the Chinese economy, with stimulus measures expected to continue at least in the first half of the year. In addition, we must add the possibility of new disruptions to supply chains due to heightened risks in the Red Sea and the continuation of other wars (*e.g.* Ukraine and Gaza).
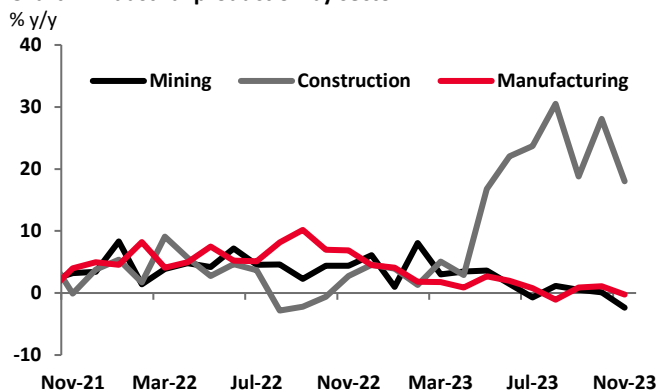
Table 1: Industrial production

% y/y nsa, % y/y sa

	nsa				sa	
	Nov-23	Nov-22	Jan-Nov'23	Jan-Nov'22	Nov-23	Nov-22
Industrial Production	**2.8**	**5.7**	**3.8**	**5.3**	**3.0**	**5.5**
Mining	**-2.4**	**4.4**	**1.7**	**4.6**	**-2.3**	**4.4**
Oil and gas	1.1	3.2	3.3	3.8	1.1	3.1
Non-oil mining	-4.1	5.2	-1.8	5.0	-4.0	5.2
Services related to mining	-26.2	12.2	1.8	9.8	-24.7	14.8
Utilities	**5.5**	**2.0**	**3.8**	**0.5**	**5.7**	**2.2**
Construction	**18.0**	**2.8**	**15.4**	**2.7**	**19.3**	**3.7**
Edification	8.5	1.5	5.2	1.0	9.8	2.2
Civil engineering	65.8	5.2	79.1	7.1	69.0	6.3
Specialized works for construction	14.1	8.5	4.1	7.6	14.3	9.6
Manufacturing	**-0.3**	**6.9**	**1.3**	**6.5**	**-0.4**	**6.5**
Food industry	-0.5	2.5	-0.9	3.1	-0.2	2.3
Beverages and tobacco	-2.9	2.2	-3.8	6.5	-2.8	1.9
Textiles - Raw materials	-6.6	-16.4	-9.4	1.9	-6.2	-16.2
Textiles - Finished products ex clothing	-3.1	-2.1	-1.8	-4.7	-1.4	-1.9
Textiles - Clothing	-4.1	-2.9	-9.8	6.3	-2.1	-2.8
Leather and substitutes	-6.6	0.7	-1.1	7.6	-5.3	-0.2
Woodworking	-10.6	-4.9	-11.0	-2.4	-10.4	-5.6
Paper	-7.5	-0.5	-5.2	3.9	-7.2	-1.1
Printing and related products	-8.8	9.2	-0.4	11.6	-8.5	9.6
Oil- and carbon-related products	-14.3	18.9	-3.1	16.5	-15.5	16.4
Chemicals	-0.3	-6.0	-3.2	1.6	0.4	-5.4
Plastics and rubber	-3.9	1.4	-2.7	5.7	-3.9	1.5
Non-metallic mineral goods production	-6.7	3.5	-2.8	2.5	-6.8	3.1
Basic metal industries	-2.9	6.0	0.1	3.5	-3.2	5.7
Metal-based goods production	-4.2	4.8	3.2	7.2	-3.7	4.7
Machinery and equipment	-5.1	9.9	1.3	6.5	-4.2	8.8
Computer, communications, electronic, and other hardware	3.2	17.4	1.5	12.3	1.2	16.6
Electric hardware	0.9	1.8	0.8	4.0	1.0	2.2
Transportation equipment	6.6	17.6	10.0	10.4	5.9	17.4
Furniture, mattresses, and blinds	-4.4	-10.8	-8.5	-0.2	-4.7	-11.0
Other manufacturing industries	3.9	0.9	2.8	4.2	3.8	1.0

Source: INEGI

Chart 1: Industrial production

% y/y
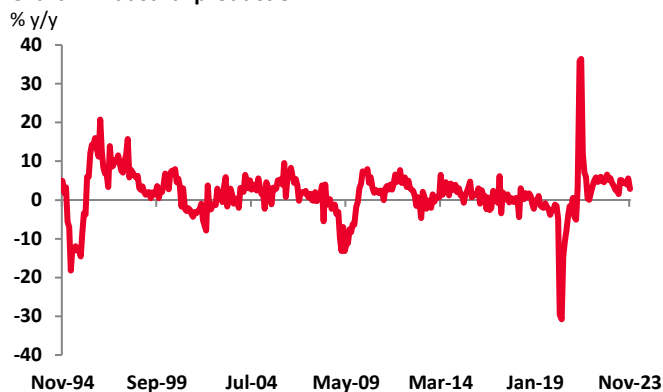
Source: INEGI

Chart 2: Industrial production by sector
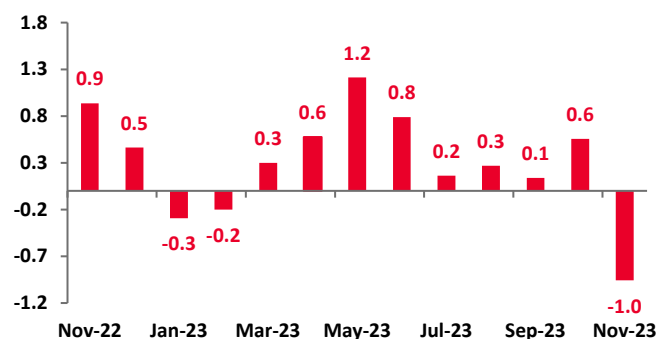
% y/y

Source: INEGI

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Table 2: Industrial production
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Nov-23	Oct-23	Sep-23	Sep-Nov'23	Jun-Aug'23
Industrial Production	**-1.0**	**0.6**	**0.1**	**0.4**	**0.9**
Mining	**-1.4**	**0.6**	**-1.0**	**-1.0**	**-1.0**
Oil and gas	0.0	-0.1	-0.7	-0.4	-0.2
Non-oil mining	0.6	-0.4	-0.5	-1.0	-1.3
Services related to mining	-19.6	10.2	-3.7	-5.4	-4.0
Utilities	**-0.4**	**0.0**	**-0.2**	**1.2**	**2.7**
Construction	**-2.9**	**4.6**	**-4.0**	**0.0**	**3.3**
Edification	-4.0	5.1	3.4	5.0	3.6
Civil engineering	-1.0	4.5	-22.6	-14.2	0.5
Specialized works for construction	1.3	4.2	-4.1	1.9	4.3
Manufacturing	**-0.5**	**-0.4**	**1.6**	**0.7**	**0.4**
Food industry	0.0	-0.6	0.9	0.5	1.2
Beverages and tobacco	-0.1	-1.5	5.9	3.2	1.1
Textiles - Raw materials	-3.5	-4.0	4.7	0.6	3.8
Textiles - Finished products ex clothing	1.7	-0.9	3.9	-0.3	-4.3
Textiles - Clothing	1.6	-1.0	0.5	2.0	3.4
Leather and substitutes	-3.4	-0.9	0.2	-3.2	-1.6
Woodworking	-0.1	-0.5	0.8	0.2	1.7
Paper	0.2	-2.0	-0.2	-1.0	-1.1
Printing and related products	-11.7	7.3	-0.7	0.1	1.0
Oil- and carbon-related products	15.5	-12.2	-7.0	-10.9	-7.4
Chemicals	-1.3	0.8	0.5	1.3	1.2
Plastics and rubber	-0.6	0.2	0.3	-0.9	-1.7
Non-metallic mineral goods production	1.3	-2.9	1.1	-1.9	-2.2
Basic metal industries	4.5	-6.3	1.2	0.4	2.0
Metal-based goods production	-4.9	-6.8	4.2	-0.3	3.8
Machinery and equipment	-2.6	1.4	1.8	1.5	1.2
Computer, communications, electronic, and other hardware	0.8	2.7	0.8	2.1	0.1
Electric hardware	0.0	0.8	-0.3	0.6	0.4
Transportation equipment	-3.0	-0.8	6.4	2.5	0.6
Furniture, mattresses, and blinds	-0.9	3.1	-1.4	-1.1	-2.3
Other manufacturing industries	2.0	-0.9	2.7	1.8	0.5

Source: INEGI

Chart 3: Industrial production
% m/m sa

Source: INEGI

Chart 4: Industrial production
Index sa

Source: INEGI

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Analyst Certification.

Relevant statements.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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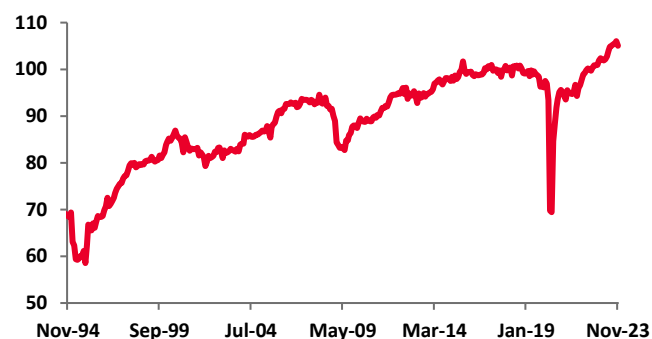
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