

Industrial production – Confirming a setback at the end of 2023

- Industrial production (December): 0.0% y/y nsa; Banorte: 1.2%; consensus: 1.2% (range: 0.6% to 2.7%); previous: 2.9%
- Sequentially, industry fell 0.7% m/m, marking two months of declines. Inside, three of its four sectors declined, with weakness concentrated in manufacturing (-1.2%) and construction (-0.6%). Mining was more resilient at 1.4%, although with high volatility inside
- At the margin, today's result is lower to the one implied by the [4Q24 preliminary GDP report](#). Thus, the final figure for the last quarter could be marginally revised to the downside
- Going forward, we believe that industrial performance could be quite positive in 1H24, underpinned by government spending in construction –on top of the continuity of nearshoring projects– as well as greater resilience in manufacturing, helped by US economic dynamism

Moderation in industry despite a more normalized base effect. Production was unchanged at 0.0% y/y (see [Chart 1](#)), lower than our estimate and consensus (1.2%). Inside, construction maintained a high growth rate at 14.8% –albeit moderating for a second month in a row. Manufacturing remained negative territory at -4.0%, while mining improved to -1.2% ([Chart 2](#)). With seasonally adjusted figures, the result was stronger at 1.2% y/y. Finally, with this, industry managed a 3.5% expansion in full-year 2023, with a relevant boost from construction (15.6%) and the remaining items also positive. For details, see [Table 1](#).

Second sequential contraction in a row. Production fell 0.7% in the last month of the year ([Chart 3](#)), accumulating a 1.7% decline since October. Performance was mixed inside, helping to moderate losses. Nonetheless, it seems that the economy lost dynamism at the end of the year. However, we believe that the signal could be skewed by several cyclical factors, among them the slowdown in public works considering their spending cycle, the normalization in the auto industry after the US strike in previous months, and planned maintenance works in several auto plants in our country that affected vehicle production. In addition, the outlook for the first half of 2024 is more encouraging, as detailed in the following section.

Considering these factors, manufacturing fell 1.2% and added three months to the downside. Inside, 13 of the 21 categories contracted. We highlight the -5.6% in transportation –consistent with the planned maintenance and early production figures–, while other categories such as clothing (-5.5%) and base metals (-2.0%) also posted relevant declines. To the upside, we note progress in oil and carbon (8.4%) and beverages and tobacco (0.9%). For more details see [Table 2](#).

Meanwhile, construction fell 0.6% –marking two consecutive months down for the first time since mid-2022. With this, we believe that a pattern of higher volatility that has prevailed since September is confirmed. Weakness was concentrated in edification (-1.3%), while civil engineering was more positive at 2.2%. Lastly, related services increased 0.3%.

Mining was positive at 1.4%. Unlike in November, services related to the sector were rather strong (38.8%), maintaining a zig-zag pattern. Meanwhile, the oil-related component fell 0.8%, in line with production data from Pemex and CNH. Lastly, the non-oil component declined 0.2%, erasing some of the gains of the previous month.

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Despite this slowdown, we believe the outlook for the first half of the year is more encouraging. At the margin, today's result is lower to the one suggested by [the 4Q24 preliminary GDP report](#), resulting in a 2.3% y/y increase in the period (vs. 2.4% in said release). Leaving other figures constant, the final GDP print could be revised by about -76bps to 2.3%. However, this would not be enough to change full-year growth of 3.1%.

Moving into 2024, we believe there are positive factors for several sectors –some already in play and other new ones– that could provide further dynamism. Overall, we believe that construction will maintain high growth –with support from both the public and private sectors– while manufacturing could receive more support from US activity, with signs of prevailing dynamism at the start of the year. Finally, there are some more green shoots for mining, although its effect could be more limited.

Beginning with construction, President López Obrador recently commented that he expects works on the *Tren Maya* to be completed in about two months, although clarifying that the project will be inaugurated after the elections due to the electoral ban. On the private sector side, Nuevo León's Governor, Samuel García, commented that works on the Tesla plant began in December, although he expects greater dynamism in January. In addition, another project that is expected to contribute significantly is the liquefied gas terminal being built by *Mexico Pacific Ltd.* in Sonora. However, some risks persist, particularly in the residential component. According to the consulting firm *Tinsa Mexico*, land shortages in some regions, as well as the increase in the cost of materials, will continue to weigh on the sector.

Turning to manufacturing, US data at the start of the year has shown a positive bias, which led us to revise our GDP growth forecast for the year to 2.2% (previous: 1.5%). In this sense, we expect a higher spillover to our country, especially in consumer goods such as electronics and home appliances. For its part, we believe the auto sector could benefit from the additional recovery in supply chains –although we are still mindful of the disruptions that may arise from the conflict in the Middle East, as well as the Panama Canal. Specifically, AMIA estimates that production could reach 4.1 million units (representing an 8.5% advance vs. 2023). This does not seem far off, especially as total production in January reached 307.1 thousand vehicles –its highest level for that period in 5 years and up 9.6% y/y. However, we are keeping an eye on the impact of the strike at Audi in the short-term, which began on January 24th. To put this in context, production of this brand in 2023 represented 4.6% of the national total.

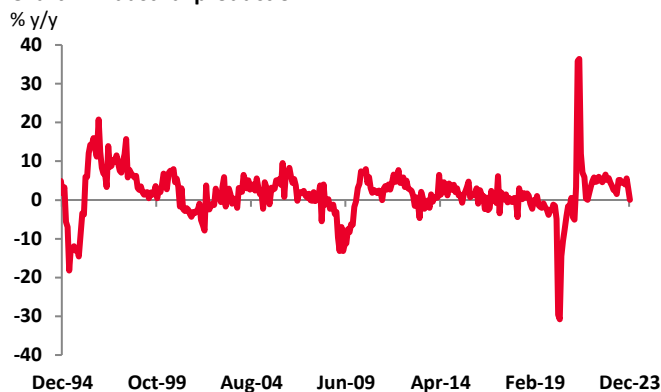
Finally, in mining, we highlight news in the non-oil sector. Specifically, four new gold mines are expected to open, expecting production of 323.4 thousand ounces per year. Most of the production would come from the 'Media Luna' mine in the state of Guerrero, contributing up to 170 thousand ounces of the total. On the oil side, we believe production will continue to be dictated by Pemex's efforts, with expectations—including those of the federal government—pointing to a modest advance relative to 2023.

Table 1: Industrial production

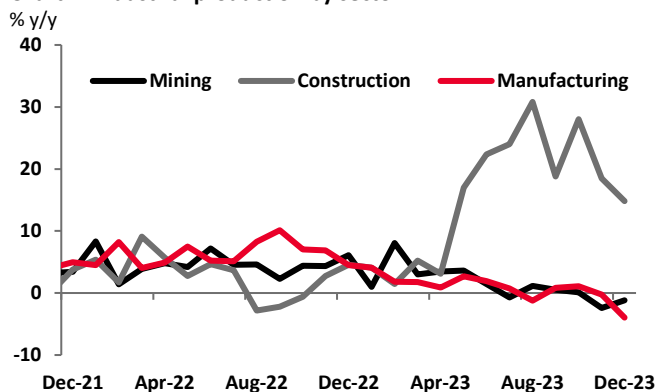
% y/y nsa, % y/y sa

	nsa				sa	
	Dec-23	Dec-22	2023	2022	Dec-23	Dec-22
Industrial Production	0.0	4.5	3.5	5.3	1.2	4.9
Mining	-1.2	6.1	1.4	4.7	-1.5	5.5
Oil and gas	0.3	2.4	3.0	3.7	0.5	2.8
Non-oil mining	-4.9	5.9	-2.0	5.1	-4.9	5.9
Services related to mining	0.8	36.5	1.7	12.3	-2.7	30.5
Utilities	2.2	-1.4	3.7	0.3	2.1	-1.4
Construction	14.8	4.6	15.6	2.8	15.5	5.3
Edification	6.7	0.3	5.4	1.0	7.4	1.4
Civil engineering	62.2	11.9	78.7	7.6	63.7	13.7
Specialized works for construction	3.1	20.6	4.0	8.7	1.7	18.2
Manufacturing	-4.0	4.5	0.9	6.3	-2.3	5.0
Food industry	-1.1	0.8	-1.0	2.9	0.2	1.2
Beverages and tobacco	-3.9	2.9	-3.8	6.2	-1.8	2.8
Textiles - Raw materials	-8.4	-21.0	-9.4	0.1	-6.5	-19.2
Textiles - Finished products ex clothing	-7.3	-2.3	-2.3	-4.5	-5.8	-3.2
Textiles - Clothing	-6.8	-10.4	-9.6	4.9	-4.9	-9.6
Leather and substitutes	-12.2	-0.4	-2.0	7.0	-10.4	1.7
Woodworking	-11.0	-11.1	-11.0	-3.1	-8.7	-10.6
Paper	-7.5	-5.4	-5.4	3.1	-6.0	-4.7
Printing and related products	7.1	2.7	0.2	10.7	7.9	3.2
Oil- and carbon-related products	4.5	10.0	-2.4	15.9	4.1	8.8
Chemicals	-2.7	-4.9	-3.2	1.0	-1.9	-4.2
Plastics and rubber	-5.9	2.4	-2.9	5.4	-4.5	3.6
Non-metallic mineral goods production	-8.9	2.5	-3.4	2.5	-8.5	2.2
Basic metal industries	-5.4	4.4	-0.4	3.6	-5.4	4.2
Metal-based goods production	-7.8	11.4	2.2	7.5	-6.5	12.3
Machinery and equipment	-4.3	-0.4	0.9	5.9	-3.3	2.1
Computer, communications, electronic, and other hardware	-3.1	23.4	1.2	13.2	0.1	21.4
Electric hardware	-0.5	1.3	0.7	3.8	0.3	2.0
Transportation equipment	-7.9	8.5	8.6	10.3	-3.6	10.1
Furniture, mattresses, and blinds	-6.4	-9.5	-8.3	-1.1	-5.1	-8.7
Other manufacturing industries	6.9	6.3	3.1	4.3	7.7	7.1

Source: INEGI

Chart 1: Industrial production


Source: INEGI

Chart 2: Industrial production by sector


Source: INEGI

Table 2: Industrial production

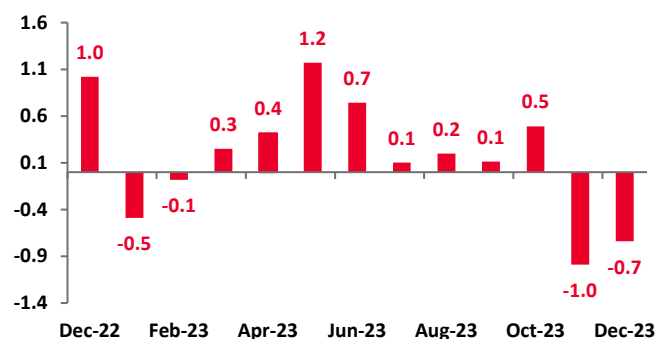
% m/m sa; % 3m/3m sa

	Dec-23	% m/m Nov-23	Oct-23	% 3m/3m Oct-Dec'23	Sep-Nov'23
Industrial Production	-0.7	-1.0	0.5	-0.3	0.3
Mining	1.4	-1.3	0.6	0.1	-0.8
Oil and gas	-0.8	0.0	0.0	-0.4	-0.4
Non-oil mining	-0.2	0.5	-0.4	-0.7	-1.0
Services related to mining	38.8	-23.4	11.6	5.6	-4.4
Utilities	-1.3	-0.5	-0.1	-0.3	1.1
Construction	-0.6	-2.8	4.5	0.3	-0.1
Edification	-1.3	-4.1	5.0	3.5	4.7
Civil engineering	2.2	0.0	1.0	-8.9	-12.5
Specialized works for construction	0.3	1.3	4.3	3.5	2.0
Manufacturing	-1.2	-0.5	-0.5	-0.4	0.6
Food industry	-0.2	0.0	-0.6	-0.1	0.6
Beverages and tobacco	0.9	0.0	-1.5	2.0	3.3
Textiles - Raw materials	-3.1	-3.9	-4.4	-4.8	0.2
Textiles - Finished products ex clothing	-1.4	1.2	-0.9	-0.2	-0.5
Textiles - Clothing	-5.5	1.6	-1.3	-0.9	1.6
Leather and substitutes	-3.6	-3.7	-1.1	-5.2	-3.6
Woodworking	-2.3	-0.2	0.0	-0.7	0.1
Paper	-0.8	0.2	-2.0	-2.0	-1.1
Printing and related products	14.8	-12.0	7.3	3.0	0.2
Oil- and carbon-related products	8.4	15.8	-12.0	-4.7	-10.2
Chemicals	0.4	-1.3	0.8	0.6	1.3
Plastics and rubber	0.8	-0.2	0.3	0.5	-0.6
Non-metallic mineral goods production	-1.3	0.9	-2.8	-2.7	-2.0
Basic metal industries	-2.0	4.3	-6.9	-2.9	0.6
Metal-based goods production	3.1	-4.7	-6.9	-5.5	-0.2
Machinery and equipment	0.1	-2.5	1.5	1.1	1.4
Computer, communications, electronic, and other hardware	-0.2	0.6	2.5	3.0	1.8
Electric hardware	-0.2	0.0	0.8	0.3	0.5
Transportation equipment	-5.6	-3.2	-0.9	-2.3	2.1
Furniture, mattresses, and blinds	-0.2	-0.9	3.1	0.9	-1.1
Other manufacturing industries	5.3	2.3	-0.6	3.8	2.2

Source: INEGI

Chart 3: Industrial production

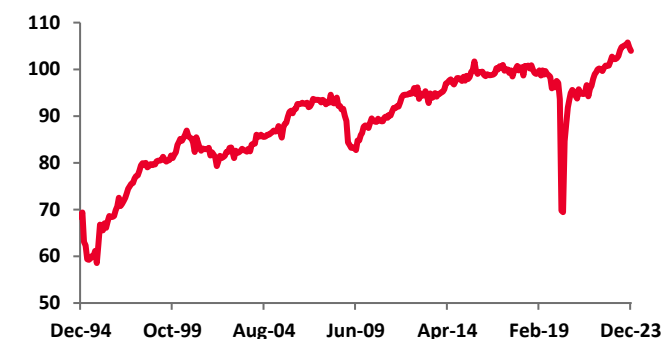
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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