March 12, 2024

Industrial production – Rebound at the start of the year sets the stage for further gains

- **Industrial production (January): 2.9% y/y nsa; Banorte: 3.2%; consensus: 2.2% (range: 0.1% to 3.2%); previous: 0.0%**
- **Sequentially, industry rebounded 0.4% m/m, positive at the margin, albeit somewhat modest considering the declines of the last two months**
- **Inside, the push centered in construction (2.2%) and manufacturing (0.2%) –partly helped by a positive base effect. On the contrary, mining dropped 0.4% on the back of weakness in oil and related services**
- **Today's result sets the stage for growth in 1Q24 –key part of our view of a 2.2% y/y advance in this category during the entire year. We believe the main boost ahead will be construction, with some risks for manufacturing**

Annual uptick in industry, in part because of a more favorable base effect. Production posted a 2.9% y/y increase (see Chart 1), better than consensus (2.2%) but closer to our estimate (3.2%). Inside, construction maintained very high growth at 17.9% –accelerating at the margin. Manufacturing returned to positive at 0.1% after two months negative, with mining still in contraction at -1.6% (Chart 2). For details by subsectors, see Table 1. The result is broadly consistent with our view of a 3.4% y/y industry expansion in 1Q24.

Modest sequential rebound. Activity grew 0.4% m/m, albeit after declines of 1.0% in November and 0.7% in December (Chart 3). Despite this relatively limited uptick, we recognize some factors that could provide greater dynamism in coming months. Among them, we highlight: (1) The start of new federal and state spending budgets, boosting infrastructure works; (2) an acceleration in spending related to private investment announcements; and (3) the reopening of several auto plants after maintenance works in the previous month. Nevertheless, some risks persist (exemplified largely by the sectoral performance in manufacturing) that could be drag.

In this context, the rally was led by construction at 2.2%. This extends the recent trend of volatility, but we believe that we could see continuous sequential improvements going forward. In this respect, edification advanced 3.3% (although with the total still somewhat low, in our view constrained by the residential sector), while civil engineering works climbed 0.7% –adding four months higher. Finally, 'specialized works' came in at -0.5%.

On a positive note, we also highlight manufacturing, up 0.2% –breaking a three-month slide. Inside, 10 of the 21 categories improved, highlighting the 0.8% rebound in transportation –consistent with the restart of operations and timely data from the sector. Other positive items included oil and carbon (6.4%) –now with two months of substantial increases–, base metals (2.9%) and clothing (2.8%). On the other hand, and in line with a relatively more challenging global outlook, we highlight electrical (-2.6%) and electronic equipment (-1.2%). For more details, see Table 2.

Finally, mining fell 0.4%. Volatility persists in 'sector-related services' –down 1.5% m/m after growing 39.5% in the previous month. The oil component contracted 1.2%, consistent with timely figures from Pemex and CNH. On the contrary, the non-oil component came in at 2.4%, in line with the positive performance in the trade balance.

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Today's result sets the stage for an uptick in the sector in 1Q24. We believe the figure was positive, particularly considering the relative weakness of the sector –and activity in general– in the previous quarter. Thus, and consistent with what we saw today, we expect dynamism will continue to be concentrated in construction in coming months, with manufacturing more stable, and volatility prevailing in mining.

Starting with construction, the federal government's physical investment spending data showed an expansion of 65.0% y/y in real terms –consistent with the results in civil engineering. We believe this is in line with the targets presented in the *2024 Budget* for completing priority projects, so we expect growth in spending to continue in the foreseeable future. On the private sector, investment announcements have continued. According to the Ministry of Economy, they have identified 52 new projects in the first two months of the year, which they expect to result in a spillover of close to US$24.8 billion over the next two to three years.

Turning to manufacturing, we delved into some of the more immediate challenges in our last *View from the Top*. Specifically, we recognize a complex global environment –both in terms of production and logistics–, although the auto sector could be better at the margin. In this regard, February's timely figures showed a 0.5% m/m increase in production (albeit with exports and sales falling back sequentially). Moreover, we expect momentum to extend into March, remembering that the Audi workers' strike ended at the middle of last month.

Mining's monthly performance has been largely dictated by the volatility of 'related services' –a situation that has exacerbated since 2021. However, the trend in both the oil and non-oil sectors has been to the downside since the middle of last year. Considering this, we believe it could maintain a slight negative bias, although still anticipating wide variations due to the behavior of the first category.

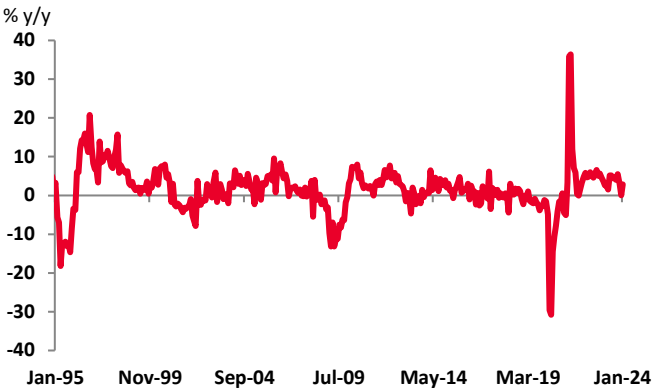
Table 1: Industrial production

% y/y nsa, % y/y sa

	nsa				sa	
	Jan-24	Jan-23	2023	2022	Jan-24	Jan-23
Industrial Production	**2.9**	**3.6**	**3.5**	**5.3**	**1.9**	**3.4**
Mining	**-1.6**	**1.0**	**1.4**	**4.7**	**-1.8**	**1.0**
Oil and gas	-2.5	3.8	3.0	3.7	-2.4	3.8
Non-oil mining	-0.4	1.5	-2.0	5.1	-0.6	1.2
Services related to mining	1.6	-17.4	1.7	12.3	1.1	-16.9
Utilities	**0.6**	**3.7**	**3.7**	**0.3**	**0.5**	**3.6**
Construction	**17.9**	**4.1**	**15.6**	**2.8**	**17.9**	**4.3**
Edification	11.3	2.8	5.4	1.0	10.8	2.3
Civil engineering	53.4	9.3	78.7	7.6	56.1	12.1
Specialized works for construction	11.5	5.3	4.0	8.7	11.6	5.6
Manufacturing	**0.1**	**4.1**	**0.9**	**6.3**	**-1.4**	**3.6**
Food industry	-0.4	1.2	-1.0	2.9	-1.2	1.1
Beverages and tobacco	1.8	0.2	-3.8	6.2	-0.5	-0.3
Textiles - Raw materials	-8.0	-10.2	-9.4	0.1	-10.0	-12.4
Textiles - Finished products ex clothing	-0.7	0.9	-2.3	-4.5	-3.3	-0.8
Textiles - Clothing	-2.3	-4.3	-9.6	4.9	-3.9	-6.3
Leather and substitutes	-12.8	2.0	-2.0	7.0	-15.0	0.5
Woodworking	-8.0	-8.0	-11.0	-3.1	-9.4	-9.2
Paper	-6.8	0.0	-5.4	3.1	-8.2	0.0
Printing and related products	-0.6	0.7	0.2	10.7	-1.2	0.2
Oil- and carbon-related products	11.9	6.2	-2.4	15.9	11.5	4.3
Chemicals	3.1	-1.8	-3.2	1.0	1.1	-3.7
Plastics and rubber	-2.2	0.6	-2.9	5.4	-3.3	-0.6
Non-metallic mineral goods production	-3.7	3.6	-3.4	2.5	-4.5	3.1
Basic metal industries	-1.2	4.5	-0.4	3.6	-1.5	4.1
Metal-based goods production	-1.9	6.8	2.2	7.5	-4.1	6.3
Machinery and equipment	-6.2	8.6	0.9	5.9	-8.1	6.6
Computer, communications, electronic, and other hardware	3.0	7.2	1.2	13.2	1.4	10.8
Electric hardware	-4.8	0.9	0.7	3.8	-5.6	-0.4
Transportation equipment	0.5	9.4	8.6	10.3	-1.8	8.3
Furniture, mattresses, and blinds	0.1	-11.8	-8.3	-1.1	-1.1	-12.8
Other manufacturing industries	2.9	11.9	3.1	4.3	1.3	9.6

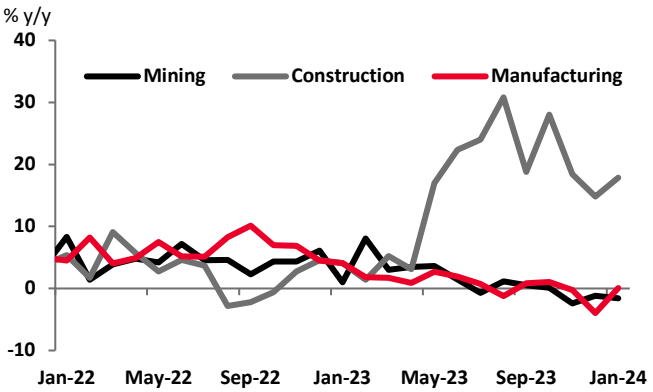
Source: INEGI

Chart 1: Industrial production



Source: INEGI

Chart 2: Industrial production by sector



Source: INEGI

Table 2: Industrial production

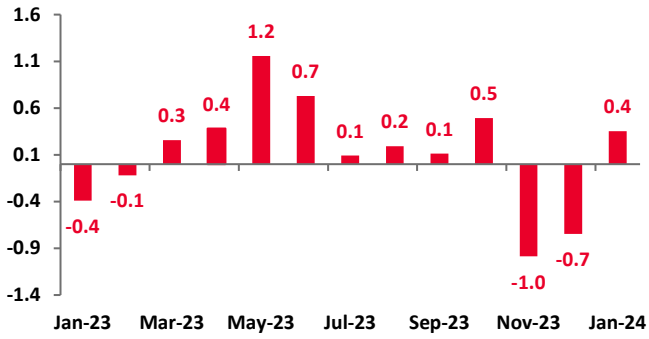
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jan-24	Dec-23	Nov-23	Jan-'24-Nov'23	Oct-Dec'23
Industrial Production	**0.4**	**-0.7**	**-1.0**	**-1.0**	**-0.3**
Mining	**-0.4**	**1.4**	**-1.4**	**-0.4**	**0.0**
Oil and gas	-1.2	-0.9	0.0	-1.3	-0.5
Non-oil mining	2.4	-0.1	0.6	0.8	-0.6
Services related to mining	-1.5	39.5	-23.5	2.3	5.9
Utilities	**-0.8**	**-1.4**	**-0.5**	**-1.8**	**-0.4**
Construction	**2.2**	**-0.5**	**-2.7**	**-0.7**	**0.6**
Edification	3.3	-1.1	-3.9	0.8	3.8
Civil engineering	0.7	2.1	0.0	-5.3	-8.8
Specialized works for construction	-0.5	0.4	1.3	2.9	3.7
Manufacturing	**0.2**	**-1.3**	**-0.5**	**-1.1**	**-0.5**
Food industry	-1.3	-0.4	0.0	-0.8	-0.2
Beverages and tobacco	0.1	0.9	0.0	1.5	2.0
Textiles - Raw materials	1.4	-2.8	-3.8	-6.5	-4.5
Textiles - Finished products ex clothing	2.3	-1.3	1.2	1.8	0.0
Textiles - Clothing	2.8	-5.6	1.5	-2.1	-0.8
Leather and substitutes	-1.3	-3.4	-3.8	-7.2	-5.4
Woodworking	-0.9	-2.1	-0.4	-1.9	-0.8
Paper	-0.8	-1.1	0.1	-2.4	-2.2
Printing and related products	-10.2	14.2	-11.8	-2.6	2.9
Oil- and carbon-related products	6.4	8.7	18.5	13.0	-4.6
Chemicals	2.4	0.1	-0.9	0.7	0.9
Plastics and rubber	-1.4	0.5	-0.3	-0.2	0.2
Non-metallic mineral goods production	3.8	-1.6	1.1	-0.2	-2.6
Basic metal industries	2.9	-1.9	4.4	-0.2	-2.8
Metal-based goods production	-1.7	2.8	-4.7	-6.8	-5.7
Machinery and equipment	-0.6	-0.6	-2.9	-2.1	0.4
Computer, communications, electronic, and other hardware	-1.2	-0.5	0.5	1.6	2.7
Electric hardware	-2.6	-0.2	-0.2	-0.9	-0.1
Transportation equipment	0.8	-5.7	-3.2	-5.3	-2.4
Furniture, mattresses, and blinds	0.6	-0.2	-0.9	0.7	0.9
Other manufacturing industries	-3.3	5.2	2.3	5.2	3.7

Source: INEGI

Chart 3: Industrial production

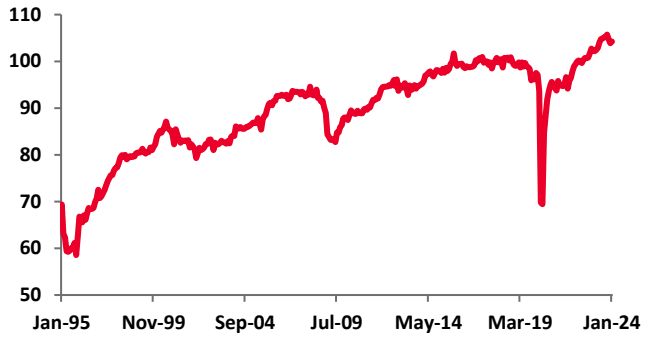
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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