Economic and Financial Markets Research
Economic Research, Mexico

April 11, 2024

Industrial production – Weakness prevails in February

- **Industrial production (February): 3.3% y/y nsa; Banorte: 5.1%; consensus: 3.1% (range: 1.9% to 6.0%); previous: 2.7%**
- **Sequentially, industry fell 0.1% m/m, backtracking after a modest expansion in January and continuing with a somewhat sluggish trend since November**
- **Inside, manufacturing was positive (+0.5%), noting a relevant push from transportation (autos). However, both construction (-2.5%) –facing a challenging base effect– and mining (-0.9%) –dragged by the oil sector– were negative**
- **In the short-term we still believe that construction could experience an acceleration. In addition, manufacturing could be more resilient, expecting some dynamism to continue in the auto sector –noting opportunities for the latter regarding EVs**

Slight acceleration in annual terms on a positive calendar effect. Production posted a 3.3% y/y expansion (see Chart 1), higher than consensus (3.1%) but lower than our estimate (5.1%). Construction held the top spot, although moderating to 10.4% (previous: 16.6%). Meanwhile, manufacturing was higher at 2.3% (Chart 2). Finally, mining remained in negative territory for a fourth month in a row at -0.9%. We must remember that these figures are skewed higher by the additional day coming from the leap year, so when using seasonally adjusted data the increase was smaller at 1.5%. For further details by subsectors, see Table 1.

Sequential setback driven by declines in construction and mining. Activity fell 0.1% m/m, continuing with disappointing results since November (Chart 3). It is important to know that construction maintained a volatile performance –characterization that has prevailed since late 3Q23–, while mining continues on a negative path. However, we do believe there were some bright spots for manufacturing, such as: (1) A relevant improvement in US manufacturing production (+0.8% m/m) –with the transportation sector standing out at +1.2%; and (2) some progress in supply chain pressures. However, we also recognize the distortions from the strength of the MXN, which cheapens imports but also reduces earnings from exports.

In this context, manufacturing climbed 0.5% –achieving its strongest increase since September. Inside, 12 of the 21 categories that make them up showed an improvement. We note the 3.4% rebound in transportation – consistent with timely figures from industry groups. Other positive items included chemicals (1.3%), machinery and equipment (0.9%), and beverages & tobacco (1.0%). On the other hand, there were relevant declines across some textile categories (*e.g.* clothing at -3.6% and textiles ex. clothing at -3.5%) along with oil & carbon (-3.2%) and metallic goods (-2.3%). For more details, see Table 2.

Construction was weak at -2.5%, more than erasing the progress seen last month (+1.4%). The decline was driven by edification (-3.9%), facing a challenging base and with somewhat mixed trends between the residential and non-residential components. 'Specialized works' were also negative at -5.1%. On a more positive note, civil engineering works climbed by 2.8% –adding five months higher–, where we believe that efforts to complete some key projects explain the acceleration.

Finally, mining fell 0.8%, stringing two months of declines. As in the previous month, oil gas extraction was negative, now at -0.6%, driving the total result. Keeping with its volatile trend, 'related services' contracted by 7.5%. Finally, non-oil declined 0.2%, with a more modest swing than what the trade balance figures suggested.


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Construction will likely accelerate in the short-term, although we expect the boost from manufacturing in the medium-term to be much more substantial. Thinking about the trends in industrial production, we believe that construction will retake its leading role in the short-term, as we recently mentioned in our *View from the Top*. However, if we broaden the horizon, it is clear that manufacturing will remain the predominant sector, especially autos. In this sense, we believe that throughout 2024 it will be possible to see modest increases –considering current production lines–, while the most important growth will be in the medium-term –with the materialization of what we see today as investment announcements. Specifically, we focus this time on electric and hybrid cars (EVs), considering the global efforts around the energy transition.

At the end of 2023, according to the consulting firm *Directorio Automotriz*, there were 262 registered companies related to the assembly, production, and sale of EVs (7 assemblers, 191 Tier 1 and 2 suppliers, and 64 Tier 3 suppliers). Considering this installed capacity and some investments maturing in 2024, the firm estimates a 96% y/y growth in the production of these vehicles. However, the outlook could be more favorable as early as the second half of the year. On the automakers' side, to date, companies such as *Kia*, *Nissan*, *Toyota*, *BMW*, and *Audi* have plans to transform their current lines to produce this type of models. In the case of the auto parts, projections are also positive. Armando Cortés, director of the *National Auto Parts Industry* (INA in Spanish) acknowledges that "*...there are companies that already are taking the lead in different materials such as aluminum and are moving from making internal combustion engine components to those required by electric vehicles, such as battery trays...*".

In the medium-term, the outlook is favorable given investment announcements already made. Some of these include: (1) The US$166 million investment by *Magna*, an EV structural parts company for a plant in Ramos Arizpe; (2) *Seojin Mobility* with US$260 million for an electric motor plant in Escobedo (with plans to complete it in February 2025); (3) the US$200 million investment by *ZF Group* in Monterrey to establish a research and development center focused on electromobility platforms; (4) *Regal Rexnord* with an investment of US$13.8 million to produce auto parts in Chihuahua; (5) *Taxan* with an investment of US$40.6 million in San Luis Potosí for electric components; and (6) announcements from Chinese companies such as *BYD*, *Chirey Motors*, and *SAIC* that will be announced in the second half of 2024.

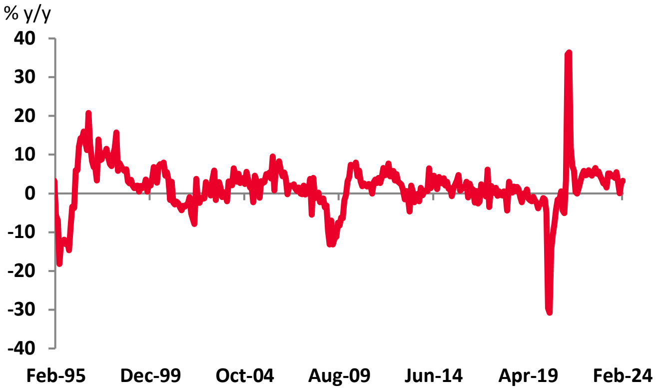
Finally, another point to highlight are the possible effects of the regulation stemming from USMCA and our relationship with the US, which could pose some challenges going forward. While there are relevant incentives such as the Chips Act passed in that country –which would have a positive spillover domestically–, there have been recent calls from US stakeholders to limit the investment of Chinese participants in Mexico. In addition, there are still some doubts about the ability to comply with the rules of origin, considering the different inputs needed to manufacture various components across the supply chain.

Table 1: Industrial production
% y/y nsa, % y/y sa

	nsa				sa	
	Feb-24	Feb-24	Jan-Feb'24	Jan-Feb'23	Feb-24	Feb-23
Industrial Production	**3.3**	**2.6**	**3.0**	**3.1**	**1.5**	**2.8**
Mining	**-0.9**	**8.1**	**-1.2**	**4.3**	**-4.0**	**7.9**
Oil and gas	-0.1	4.6	-1.4	4.1	-3.1	4.6
Non-oil mining	1.6	1.6	0.7	1.6	-1.2	1.3
Services related to mining	-12.7	76.5	-6.0	15.4	-17.2	76.2
Utilities	**2.3**	**3.6**	**1.2**	**3.7**	**2.5**	**3.9**
Construction	**10.4**	**1.4**	**13.5**	**2.8**	**12.1**	**3.5**
Edification	3.8	-2.9	6.8	-0.1	5.1	-1.5
Civil engineering	44.4	23.0	48.8	16.0	47.2	27.3
Specialized works for construction	1.3	2.8	6.5	4.0	3.5	5.7
Manufacturing	**2.3**	**1.8**	**1.2**	**3.0**	**0.0**	**2.0**
Food industry	0.2	0.3	-0.1	0.7	-1.3	0.6
Beverages and tobacco	4.0	0.3	2.9	0.3	0.0	0.0
Textiles - Raw materials	-7.9	-9.6	-8.0	-9.9	-8.6	-10.0
Textiles - Finished products ex clothing	-3.2	-3.5	-2.1	-1.3	-6.5	-4.0
Textiles - Clothing	-4.4	-13.5	-3.1	-9.0	-3.6	-12.7
Leather and substitutes	-13.7	0.2	-13.3	1.1	-13.5	0.7
Woodworking	-4.6	-9.1	-6.3	-8.5	-8.2	-9.0
Paper	-5.8	-0.3	-6.3	-0.1	-8.2	-0.4
Printing and related products	-5.6	0.1	-3.0	0.4	-5.5	0.6
Oil- and carbon-related products	16.4	-8.4	14.0	-1.0	17.2	-8.1
Chemicals	9.2	-8.1	6.0	-4.9	5.0	-8.5
Plastics and rubber	0.5	-1.7	-0.9	-0.5	0.1	-1.6
Non-metallic mineral goods production	-1.0	0.1	-2.3	1.8	-1.3	0.0
Basic metal industries	-3.4	4.6	-2.2	4.5	-3.5	4.5
Metal-based goods production	-3.8	1.3	-2.8	4.0	-6.3	1.7
Machinery and equipment	-3.4	4.1	-4.8	6.3	-3.6	3.8
Computer, communications, electronic, and other hardware	3.8	0.0	3.4	3.5	3.5	1.7
Electric hardware	-5.5	3.6	-5.1	2.2	-5.6	3.4
Transportation equipment	5.4	11.6	3.0	10.5	0.6	11.1
Furniture, mattresses, and blinds	1.7	-11.7	0.9	-11.8	1.5	-11.2
Other manufacturing industries	11.5	4.3	7.2	8.1	7.2	4.0

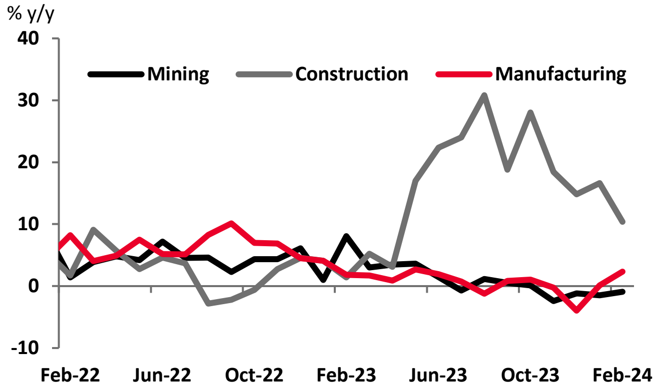
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



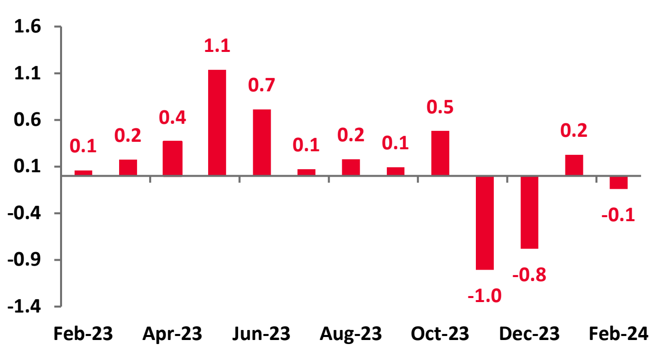
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-24	Jan-24	Dec-23	Dec'23-Feb'24	Nov'23-Jan'24
Industrial Production	**-0.1**	**0.2**	**-0.8**	**-1.2**	**-1.1**
Mining	**-0.8**	**-0.4**	**1.4**	**0.2**	**-0.5**
Oil and gas	-0.6	-1.3	-0.9	-2.0	-1.4
Non-oil mining	-0.2	2.5	-0.1	1.7	0.9
Services related to mining	-7.5	-2.6	38.7	14.4	1.1
Utilities	**0.7**	**-1.0**	**-1.4**	**-2.1**	**-1.9**
Construction	**-2.5**	**1.4**	**-0.7**	**-1.1**	**-1.4**
Edification	-3.9	2.1	-1.4	-2.6	-0.4
Civil engineering	2.8	1.0	2.5	4.9	-3.9
Specialized works for construction	-5.1	-0.6	-0.2	-0.3	2.0
Manufacturing	**0.5**	**0.3**	**-1.3**	**-1.4**	**-1.0**
Food industry	0.1	-1.2	-0.4	-1.4	-0.8
Beverages and tobacco	1.0	0.1	0.9	0.8	1.6
Textiles - Raw materials	0.8	2.8	-4.0	-5.8	-6.7
Textiles - Finished products ex clothing	-3.5	2.0	-1.5	-1.0	1.3
Textiles - Clothing	-3.6	2.2	-5.3	-4.5	-2.0
Leather and substitutes	-1.2	-2.2	-3.4	-8.0	-7.6
Woodworking	0.7	-0.9	-2.2	-2.9	-2.0
Paper	0.7	-0.8	-1.0	-1.8	-2.2
Printing and related products	-2.8	-9.8	14.2	-0.5	-2.6
Oil- and carbon-related products	-3.2	6.4	8.7	19.4	13.2
Chemicals	1.3	2.4	0.1	2.0	0.9
Plastics and rubber	1.7	-1.3	0.6	0.2	0.0
Non-metallic mineral goods production	0.4	4.1	-1.6	1.0	-0.1
Basic metal industries	-1.4	2.9	-1.9	-0.1	-0.3
Metal-based goods production	-2.3	-1.7	1.1	-5.5	-6.7
Machinery and equipment	0.9	-0.5	-0.6	-2.2	-2.1
Computer, communications, electronic, and other hardware	0.0	-1.1	-0.5	-0.1	1.7
Electric hardware	-0.3	-2.7	-0.3	-2.2	-1.1
Transportation equipment	3.4	0.8	-5.5	-6.3	-5.2
Furniture, mattresses, and blinds	1.4	0.6	-0.1	1.2	0.9
Other manufacturing industries	1.1	-2.5	5.0	5.0	5.4

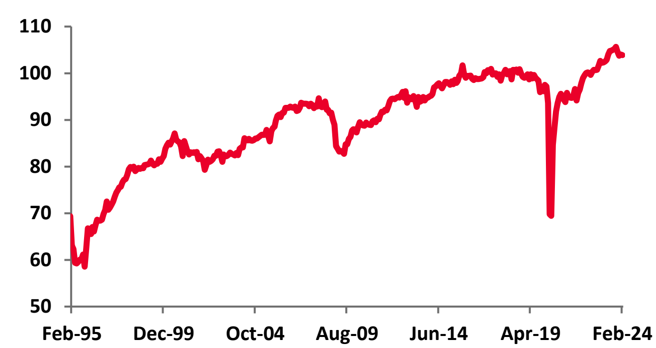
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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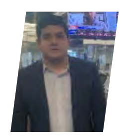

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