May 10, 2024

Industrial production – Recovery in March driven by construction and manufacturing

- **Industrial production (March): -3.0% y/y nsa; Banorte: -3.0%; consensus: -2.9% (range: -3.4% to 2.3%); previous: 3.3%**
- **Sequentially, industry climbed 0.6% m/m, recovering after a mild decline in the previous month (-0.1%) and with its largest expansion since the middle of last year**
- **Inside, constriction led (+1.1%), driven by civil engineering works. Manufacturing also improved (+0.8%), with 14 of the 21 categories that make it up to the upside. Finally, mining fell 1.2%, with all three components contracting**
- **The result, along with revisions to previous months, was not enough to move the needle for a sizable revision in 1Q24 preliminary GDP. We believe that the sector could maintain a positive aggregate performance, albeit with differences within prevailing**

Contraction in annual terms due to a negative calendar effect. Production fell 3.0% y/y (see Chart 1), in line with our estimate which practically matched consensus (-2.9%). Construction was the only one that remained in positive territory at 5.7%. Mining stayed negative for a fifth consecutive month at -5.5%. Finally, manufacturing also moderated to -5.0% (Chart 2). We must remember that these figures are strongly skewed to the downside due to the adverse effect of the *Easter* holiday. As such, using seasonally adjusted figures, industry posted a 2.1% increase. For further details by subsectors, see Table 1.

Sequential uptick on improvements in key categories. Activity picked up 0.6% m/m, its best result since June 2023 (Chart 3). Although there were increases in several items, performance remains heterogeneous. In addition, strong base effects are still distorting some figures. In this regard, we believe construction remains as the best positioned given the boost from federal spending and interest in industrial spaces. Manufacturing is more mixed, with resilience in certain US sectors as a relevant support, but also with companies dealing with the effects of MXN strength and other challenges. Finally, the outlook for mining remains complex, especially for oil.

In this context, construction led at 1.1%, although not enough to erase the previous month's setback (-2.2%). On a positive note, civil engineering added a sixth month up at 2.9% –with efforts to complete flagship projects key in explaining this. However, we also highlight some momentum in edification (1.3%), facing a more positive base effect and likely benefiting from nearshoring-related activity. On the contrary, and 'specialized works' fell 3.5%.

Manufacturing was also positive at 0.8%, adding three months of increases. Inside, 14 of the 21 categories advanced. We note the 7.8% rebound in oil & carbon –with a lot of volatility given operational issues at some refineries. Other positive items included textile inputs (5.6%), textiles ex. clothing (4.3%), and metallic products (2.8%). On the other hand, relevant declines in base metals (-2.6%) and non-metallic minerals (-2.3%). Transportation equipment fell 0.4%, although only after a 1.6% expansion in the previous month. For more details, see Table 2.

Finally, mining dropped 1.2%. Volatility continued in 'related services', down 3.7%, and dragging the total. On the other hand, the oil component fell 1.0%, consistent with reductions in crude oil and natural gas extraction and adding seven months to the downside. Finally, non-oil backtracked 1.4%, echoing the performance of this item in the trade balance.

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After a somewhat modest start to the year, we expect industry to show greater vigor in 2Q24. With today's results –and the revisions to January and February–, production would have fallen 0.4% q/q (0.8% y/y) in the first quarter, improving just 1bp relative to the figure published in the GDP preliminary estimate. This would not be big enough to drive an upward adjustment for the headline, remaining at 0.2% q/q (1.6% y/y). With this, attention on the sector turns to the second quarter, where we expect greater dynamism.

By sectors, we hold a very positive view in construction. Considering the holiday period, we believe figures could show additional dynamism as soon as April, with both public and private projects gathering pace. Consistent with this, employment for the sector from IMSS showed a net creation of 22.5 thousand jobs (nsa). However, there is still room for an acceleration through May for civil engineering as the last push before the elections materializes. After this, we expect a deceleration in the sector. Nevertheless, dynamism in industrial spaces could provide some support, noting that just in the period between March 15th and April 15th, an additional US$4.6 billion in investment announcements were registered by the Ministry of Economy, expecting the trend to continue further ahead.

On manufacturing, *S&P Global*'s PMI in the US posted a slight deceleration in April, although still above the 50pts threshold, suggesting that some positive spillover locally might extend. However, this clashes with timely signals locally, with IMEF's indicator back in contraction at 49.2pts. As such, the short-term outlook remains somewhat challenging, with producers still dealing with several issues such as: (1) Sluggishness in output in China and the Eurozone, impacting some supply chains; (2) the effects from MXN strength in their profitability and cost structures; and (3) volatility in some input costs, particularly for the food industry.

Regarding mining, the downward trend in the oil sector will likely continue, at least in the short-term. We note a recent fire in early April in the Akal-B oil platform in the coast of Campeche. Although controlled quickly, this will likely represent another burden for the category.

All in all, industry should prove to be a relevant driver in 2Q24, but with some challenges taking its toll in the latter part of the year. In addition, a mixed performance is likely to continue across categories, with risks and hurdles being more present for some of them.

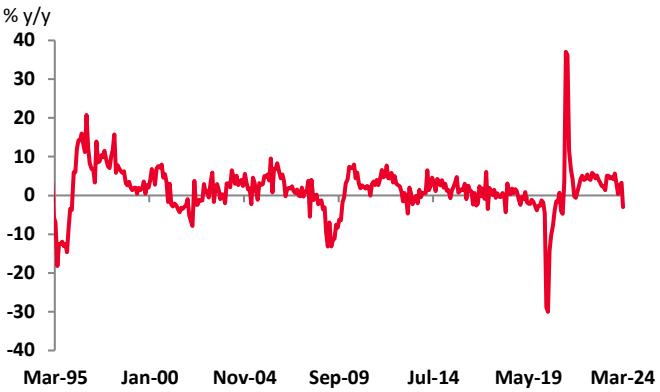
Table 1: Industrial production

% y/y nsa, % y/y sa

	nsa				sa	
	Mar-24	Mar-24	Jan-Mar'24	Jan-Mar'23	Mar-24	Mar-23
Industrial Production	**-3.0**	**2.4**	**0.9**	**2.7**	**2.1**	**2.3**
Mining	**-5.5**	**2.9**	**-2.7**	**3.7**	**-4.1**	**3.3**
Oil and gas	-4.6	3.7	-2.5	4.0	-4.5	3.8
Non-oil mining	-5.0	-1.8	-1.3	-0.2	-1.8	-1.8
Services related to mining	-16.8	18.7	-8.9	16.2	-12.3	27.4
Utilities	**0.1**	**2.9**	**0.8**	**3.3**	**1.9**	**2.7**
Construction	**5.7**	**5.6**	**10.7**	**3.8**	**9.6**	**5.4**
Edification	0.0	1.4	4.1	0.6	3.4	0.1
Civil engineering	38.7	29.7	46.1	20.8	44.8	34.7
Specialized works for construction	-7.5	3.6	1.6	3.6	-3.2	4.7
Manufacturing	**-5.0**	**1.4**	**-1.0**	**2.2**	**1.5**	**1.4**
Food industry	-2.4	-1.2	-1.0	0.1	1.9	-1.2
Beverages and tobacco	-0.7	-3.5	1.7	-1.4	5.2	-2.6
Textiles - Raw materials	-13.5	-8.2	-9.7	-9.4	-1.0	-8.6
Textiles - Finished products ex clothing	-3.9	-9.2	-2.7	-4.5	4.2	-8.6
Textiles - Clothing	-14.4	-13.5	-7.3	-10.4	-6.2	-11.9
Leather and substitutes	-24.2	0.0	-17.1	2.3	-13.5	1.1
Woodworking	-15.2	-11.9	-9.6	-9.0	-9.0	-11.2
Paper	-10.0	-2.9	-7.4	-0.9	-4.5	-2.9
Printing and related products	-11.5	-2.2	-6.4	-1.4	-5.1	-1.5
Oil- and carbon-related products	19.5	5.1	16.0	1.1	22.1	4.5
Chemicals	-1.9	-1.7	2.5	-4.1	4.7	-2.4
Plastics and rubber	-7.2	-2.4	-3.3	-1.3	2.3	-2.3
Non-metallic mineral goods production	-7.5	-2.2	-3.8	0.0	-2.3	-1.9
Basic metal industries	-8.1	1.3	-4.4	3.3	-5.6	1.7
Metal-based goods production	-7.4	-4.0	-3.4	-1.4	1.6	-4.5
Machinery and equipment	-7.3	1.1	-5.5	4.8	-0.5	0.0
Computer, communications, electronic, and other hardware	-2.5	4.1	1.9	3.4	3.8	4.2
Electric hardware	-7.3	3.7	-5.6	3.0	-2.3	3.5
Transportation equipment	-10.2	7.7	-1.9	9.1	2.3	7.7
Furniture, mattresses, and blinds	-9.1	-7.1	-2.9	-9.2	-0.8	-7.4
Other manufacturing industries	1.7	3.2	4.2	5.8	10.9	2.9

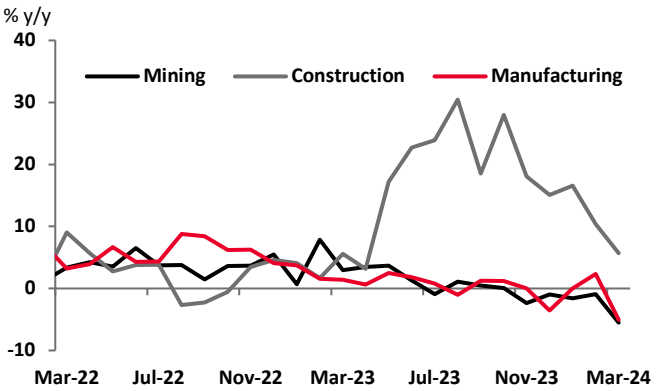
Source: INEGI

Chart 1: Industrial production



Source: INEGI

Chart 2: Industrial production by sector



Source: INEGI

Table 2: Industrial production

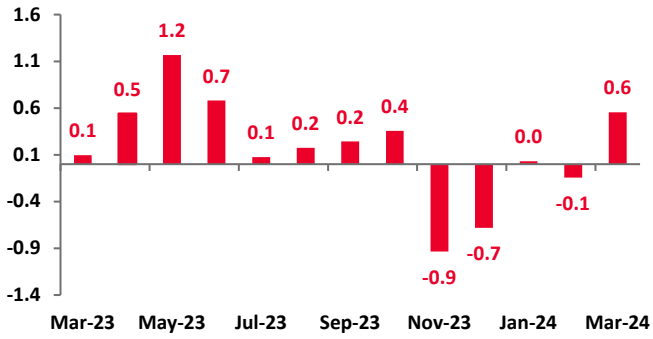
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Mar-24	Feb-24	Jan-24	Jan-Mar'24	Dec'23-Feb'24
Industrial Production	**0.6**	**-0.1**	**0.0**	**-0.6**	**-1.2**
Mining	**-1.2**	**-0.8**	**-0.6**	**-1.1**	**0.0**
Oil and gas	-1.0	-0.6	-1.3	-2.7	-2.1
Non-oil mining	-1.4	-0.2	2.2	2.0	2.1
Services related to mining	-3.7	-7.9	-3.4	1.4	12.7
Utilities	**0.2**	**1.4**	**-0.3**	**-0.3**	**-1.3**
Construction	**1.1**	**-2.2**	**1.1**	**-1.2**	**-0.8**
Edification	1.3	-3.7	1.8	-2.2	-2.2
Civil engineering	2.9	3.9	0.2	6.4	5.7
Specialized works for construction	-3.5	-4.7	-1.5	-6.1	-1.8
Manufacturing	**0.8**	**0.7**	**0.1**	**-0.1**	**-1.3**
Food industry	1.2	0.6	-1.6	-1.0	-1.2
Beverages and tobacco	1.4	1.3	0.3	2.3	1.2
Textiles - Raw materials	5.6	1.4	4.8	2.9	-5.1
Textiles - Finished products ex clothing	4.3	-4.2	1.1	-1.0	-1.6
Textiles - Clothing	-1.4	-4.3	2.7	-4.0	-4.8
Leather and substitutes	-0.5	-0.8	-2.1	-6.4	-8.0
Woodworking	-2.6	0.5	0.2	-2.4	-3.1
Paper	1.0	0.8	-0.6	-0.2	-1.5
Printing and related products	0.1	-2.0	-10.0	-7.1	-0.7
Oil- and carbon-related products	7.8	-2.7	6.4	19.5	19.7
Chemicals	2.3	1.0	1.6	3.1	1.5
Plastics and rubber	2.0	2.6	-1.8	0.5	-0.3
Non-metallic mineral goods production	-2.3	0.2	4.3	3.0	1.3
Basic metal industries	-2.6	-2.6	3.6	1.0	0.1
Metal-based goods production	2.8	-1.4	-0.4	-0.5	-2.9
Machinery and equipment	0.4	1.3	-0.3	-1.1	-1.9
Computer, communications, electronic, and other hardware	0.7	0.2	-1.5	-0.6	0.7
Electric hardware	1.3	-0.4	-2.6	-2.7	-2.0
Transportation equipment	-0.4	3.4	0.2	-2.5	-6.5
Furniture, mattresses, and blinds	-0.4	1.6	0.7	0.8	1.3
Other manufacturing industries	4.7	0.0	-0.6	4.1	4.5

Source: INEGI

Chart 3: Industrial production

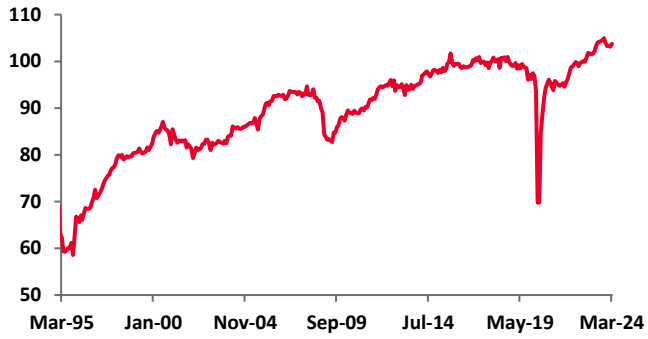
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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