August 9, 2024

Industrial production – Growth continued in June, albeit with volatility among sectors

- **Industrial production (June): -0.7% y/y nsa; Banorte: -0.8%; consensus: -0.1% (range: -0.8% to 1.4%); previous: 1.1%**
- **Industrial activity climbed 0.4% m/m, adding two months of improvements and corroborating a relatively positive bias at the end of 2Q24**
- **Gains centered in manufacturing at 2.0% –with 14 out of 21 categories higher. Construction fell 2.3%, not entirely surprising given relevant gains in the three previous months. Mining was also negative at -2.0%, noting volatility in 'related services'**
- **Despite a marginally lower performance than suggested by the preliminary GDP, it would not be enough to impact total activity in the quarter, which came in at 0.2% q/q**
- **Risks remain ahead, although some actions and events stand out that could provide some support to activity**

Industry falls in annual terms, facing a challenging base effect. Production fell 0.7% y/y (see Chart 1), lower than consensus (-0.1%) but practically matching our estimate (-0.8%). Two sectors remained positive, being construction at 1.5% –now with edification leading, but with civil engineering negative–, and utilities at 3.6%. Manufacturing fell 0.9% (Chart 2), with a heterogeneous behavior inside. Finally, mining came in at -4.3%, with adverse results persisting in the oil sector, although by a more modest magnitude. With seasonally adjusted figures, industry expanded 0.4% y/y, with the month impacted by a lower number of working days vs. June 2023. For further details, please see Table 1.

Sequential uptick, marking a two-month uptrend. Activity grew 0.4% m/m, adding to the 0.7% of the previous month, although with an heterogeneous performance within (Chart 3). The result is consistent with a recovery throughout the quarter despite acknowledging that it weaker than what we originally estimated. At the margin, there were a couple of negative surprises in some sectors.

Manufacturing led at 2.0%. This happened after a relatively disappointing performance in the previous months and seems supported by a higher dynamism of the category in the US recently. Thus, 14 out of 21 subsectors grew. We note the 6.0% in transportation, consistent with early figures for heavy vehicles. Others with notable expansions include oil and carbon at 9.8% –facing a rather favorable base effect–, machinery and equipment at 2.3%, and electronic goods at 1.5%. On the contrary, losses were concentrated in base metals (-6.3%), textiles ex. clothing (-1.4%) and chemicals (-0.8%). On the latter, we highlight that the strike at steelmaker *ArcelorMittal* continued in the month. For more details see Table 2.

Mining fell by 2.0%, erasing last month's expansion. The oil component rebounded marginally by 0.5%, with positive figures for both gas and crude oil extraction. With this, the component broke nine months to the downside. Non-oil backtracked 4.7%, facing a rather challenging base effect as it expanded 9.2% in May. Related services fell 10.2%, with volatility persisting in this category.

Construction declined 2.3%. Losses were widespread, with edification down by 2.6% as it faced the most difficult base effect. Civil engineering dropped for a third consecutive month, now at -0.9%. Lastly, 'specialized works' contracted 1.5%.

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Headwinds remain, although with some positive signs that could provide support. With today's results, industrial production would have grown 0.2% q/q in 2Q24, 6bps lower vs. the figure in the 2Q24 preliminary GDP report. Despite of the moderation, it would not be enough to skew total activity in the period, which grew 0.2% q/q.

We continue to believe that headwinds remain, consistent with the usual economic after federal elections. At first, we thought that the most affected sector would be construction. But as we have said in previous publications, the fact that works on some of the federal government's priority projects continued in July and August should be positive. Added to this are private sector initiatives focused on continuing the momentum seen in the public sector. In this regard, the *Mexican Chamber of the Construction Industry* (CMIC in Spanish) published in recent days a decalogue of proposals, seeking not only to boost spending in this area, but also to make it more profitable and efficient. In addition, we will be looking to the specific initiatives of the housing plan from the incoming administration, although we are aware that this could not materialize until 2025 or later.

In manufacturing, the strike at the *ArcelorMittal* steel company lasted 55 days, with a court ending it at the beginning of August. Given this, related industries are likely to remain somewhat dampened in the short-term. In addition, signals from the US are adverse, with the PMI and ISM manufacturing remaining in contraction in July. However, we believe that resilience in key sectors such as autos will be very important to support the component. Specifically, the *National Auto Parts Industry* (INA in Spanish) indicated that its production reached a record high in May and that they expect the year to close with a 4% y/y expansion.

Finally, mining companies have shown gains due to the recovery in the prices of some metals. This could be related to improvements in the non-oil component in recent months. However, we stay cautious given that, with the prospect of a slowdown, businesses could choose to reduce their mining operations, so it will be very important to follow their communications in coming months.

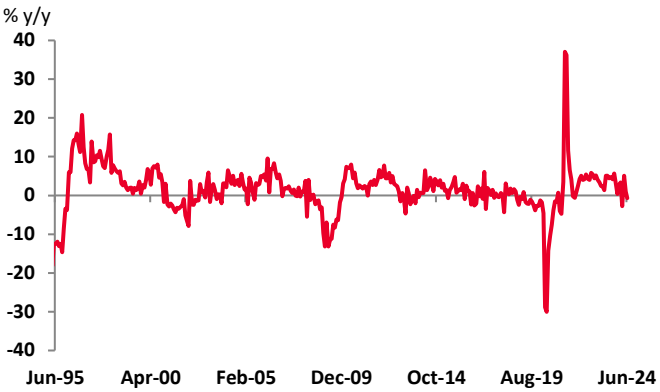
Table 1: Industrial production

% y/y nsa, % y/y sa

	nsa				sa	
	Jun-24	Jun-23	Jan-Jun'24	Jan-Jun'23	Jun-24	Jun-23
Industrial Production	**-0.7**	**5.1**	**1.4**	**3.3**	**0.4**	**5.1**
Mining	**-4.3**	**1.3**	**-2.7**	**3.2**	**-4.4**	**1.2**
Oil and gas	-6.3	3.7	-4.9	4.3	-6.3	3.7
Non-oil mining	8.6	-4.0	5.6	-0.9	8.7	-3.9
Services related to mining	-24.7	0.6	-13.0	9.1	-25.6	-1.3
Utilities	**3.6**	**3.2**	**2.6**	**1.9**	**3.5**	**3.2**
Construction	**1.5**	**22.7**	**10.1**	**8.9**	**1.4**	**22.3**
Edification	5.8	6.4	7.6	1.3	6.1	7.1
Civil engineering	-5.7	141.7	22.9	59.9	-8.0	130.3
Specialized works for construction	-3.6	-3.1	3.1	-0.4	-3.4	-3.2
Manufacturing	**-0.9**	**1.8**	**-0.3**	**1.9**	**0.8**	**1.8**
Food industry	-1.9	-1.3	-0.3	-0.9	-0.6	-1.4
Beverages and tobacco	0.6	-4.1	1.9	-2.9	2.5	-3.1
Textiles - Raw materials	-8.4	-10.8	-7.6	-10.1	-5.7	-10.9
Textiles - Finished products ex clothing	-11.8	2.9	-5.4	-0.9	-9.9	2.5
Textiles - Clothing	-11.2	-10.2	-7.6	-11.7	-9.2	-11.0
Leather and substitutes	-17.1	3.1	-14.9	1.9	-15.4	3.8
Woodworking	-4.4	-13.1	-6.6	-12.3	-1.7	-14.2
Paper	-1.3	-7.6	-4.8	-2.8	0.3	-7.4
Printing and related products	-6.2	2.5	-4.1	-0.3	-3.7	2.8
Oil- and carbon-related products	13.0	16.9	10.5	2.0	9.6	15.1
Chemicals	-0.6	-6.2	2.4	-4.5	2.1	-5.8
Plastics and rubber	0.2	-1.1	-0.6	-1.1	2.7	-1.9
Non-metallic mineral goods production	-3.1	-1.4	-2.6	-0.8	-2.7	-1.1
Basic metal industries	-10.0	-3.8	-4.5	-0.1	-9.5	-3.3
Metal-based goods production	-3.4	-1.8	-2.4	-1.9	-1.3	-1.6
Machinery and equipment	-6.1	2.8	-4.1	3.5	-2.4	1.8
Computer, communications, electronic, and other hardware	-1.6	1.9	1.7	2.5	0.2	1.9
Electric hardware	-0.1	-1.9	-2.3	0.8	1.4	-1.8
Transportation equipment	1.1	12.3	-0.5	11.6	4.4	11.9
Furniture, mattresses, and blinds	-5.4	-7.4	-3.9	-8.3	-3.2	-7.9
Other manufacturing industries	9.3	1.2	6.8	3.0	11.2	1.6

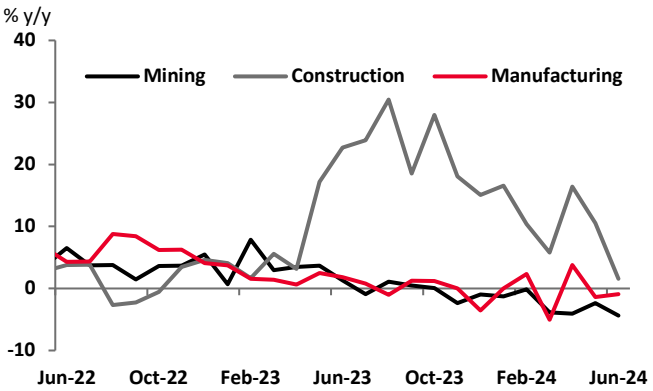
Source: INEGI

Chart 1: Industrial production



Source: INEGI

Chart 2: Industrial production by sector



Source: INEGI

Table 2: Industrial production

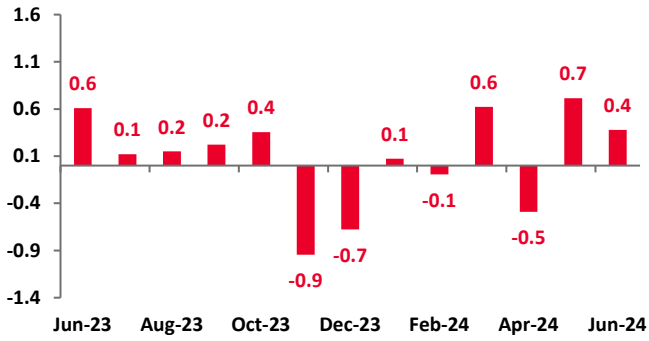
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-24	May-24	Apr-24	Apr-Jun'24	Mar-May'24
Industrial Production	**0.4**	**0.7**	**-0.5**	**0.5**	**0.5**
Mining	**-2.0**	**2.0**	**-1.3**	**-1.3**	**-1.4**
Oil and gas	0.5	-0.1	-1.6	-2.4	-3.0
Non-oil mining	-4.7	9.2	-1.8	3.4	4.5
Services related to mining	-10.2	-1.7	-0.5	-10.2	-11.6
Utilities	**-0.1**	**3.5**	**-1.2**	**1.7**	**1.5**
Construction	**-2.3**	**2.3**	**1.7**	**2.6**	**2.1**
Edification	-2.6	5.0	2.0	4.3	3.0
Civil engineering	-0.9	-4.2	-0.4	-1.1	2.1
Specialized works for construction	-1.5	1.1	2.1	-1.0	-4.2
Manufacturing	**2.0**	**0.0**	**-1.5**	**-0.2**	**0.1**
Food industry	0.3	0.5	-1.7	-0.3	0.1
Beverages and tobacco	-0.2	3.0	-5.0	-2.1	-0.6
Textiles - Raw materials	1.9	-0.1	-8.9	-4.3	2.1
Textiles - Finished products ex clothing	-1.4	-0.8	-3.9	-3.5	-1.1
Textiles - Clothing	1.4	1.6	-4.7	-5.7	-6.2
Leather and substitutes	-1.3	4.2	-3.4	-1.8	-2.8
Woodworking	3.0	1.9	-1.3	-1.0	-2.9
Paper	0.7	0.4	-0.5	1.0	1.2
Printing and related products	-0.2	1.6	1.1	1.6	-3.5
Oil- and carbon-related products	9.8	-2.7	-11.5	-6.6	-1.2
Chemicals	-0.8	0.9	-3.1	-1.7	0.5
Plastics and rubber	1.5	3.6	-3.7	0.9	1.4
Non-metallic mineral goods production	0.0	0.5	-1.0	-2.4	-1.6
Basic metal industries	-6.3	-1.4	0.2	-5.5	-3.9
Metal-based goods production	1.6	2.2	-3.7	-1.0	-1.1
Machinery and equipment	2.3	-1.2	-0.1	0.1	-0.1
Computer, communications, electronic, and other hardware	1.5	-1.7	-0.9	-1.0	-1.0
Electric hardware	0.5	0.9	-0.1	1.6	0.7
Transportation equipment	6.0	1.0	-0.9	2.6	1.6
Furniture, mattresses, and blinds	3.5	-2.3	-3.4	-3.8	-2.7
Other manufacturing industries	1.3	4.5	-5.0	0.6	1.3

Source: INEGI

Chart 3: Industrial production

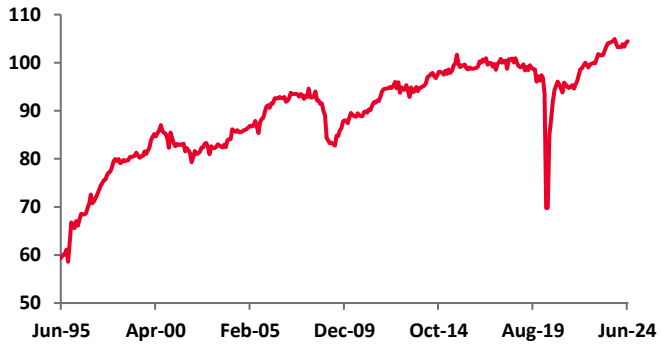
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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