

Industrial production – Strong rebound in construction and mining in July

- Industrial production (July): 2.1% y/y nsa; Banorte: 0.9%; consensus: 0.8% (range: 0.0% to 2.2%); previous: -0.7%
- Industrial activity rose 0.2% m/m, adding three months higher despite a more difficult base effect and other challenges
- Construction rebounded 2.6%, driven by edification. Mining was also positive at +1.4%, albeit helped by 'related services'. Lastly, manufacturing fell 0.8%, with 13 of its 21 categories down
- We believe that the bias for industry in the remainder of the year will be negative, with headwinds for construction and manufacturing. Nevertheless, the outlook for 2025 and the medium-term remains positive

Higher industry growth in the annual comparison in July. Production grew 2.1% y/y (see [Chart 1](#)), higher than consensus (0.8%) and our estimate (0.9%). The period benefited from favorable base and calendar effects. Construction was once again the highest at 5.3% –with edification as the main driver for a third month in a row–, followed by manufacturing at 1.6% ([Chart 2](#)). Finally, mining remained negative, now at -0.4%. With seasonally adjusted figures, industry advanced 0.6% y/y. For further details, please see [Table 1](#).

Third sequential uptick in a row. Activity rose 0.2% m/m despite a challenging base effect ([Chart 3](#)), and some specific issues across different sectors. Hence, this was a positive surprise that sets a relatively good starting point for 3Q24. Nonetheless, the outlook remains difficult, expecting a more lateral performance going forward. In this context, we believe that some categories will remain subject to seasonal and circumstantial factors.

Construction led at +2.6% ([Table 2](#)). Much of this is likely just a rebound after the 2.2% drop seen in June. However, two factors helped in the period, namely: (1) Some stability in the sector's PPI after upward pressures in the previous two months; and (2) an acceleration in federal spending on physical investment. This should be added to the prevailing upward trend in demand for industrial spaces. In this backdrop, edification climbed 4.3%, with 'specialized works' also up by the same magnitude. Finally, civil engineering works came in at -4.5%, adding four months lower.

Mining expanded 1.4%, not enough to offset for the 1.9% contraction seen in the previous month. The push came from 'related services', with renewed volatility in this category. Non-oil was positive at the margin at 0.4%, facing a rather helpful base effect. On the contrary, oil contracted 0.2%, consistent with lower crude and gas output.

Manufacturing contracted 0.8%, with a more challenging outlook. In this sense, this sector in the US posted a 0.3% setback in the month, although [our country's manufacturing exports accelerated](#). Of the 21 categories, 13 were down. We note the 3.1% contraction in transportation, consistent with early figures about light vehicles (but contrasting with those for heavy ones). Other relevant declines were in plastics and rubber (-3.8%), machinery and equipment (-2.3%), and electronic equipment (-1.6%). On the other hand, we saw strong gains in basic metals (+5.4%) –despite an extension of the strike in the steel company *ArcelorMittal* during the entire month–, oil and carbon (3.0%), and electrical equipment (2.0%).

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Headwinds for industry in the remainder of the year. With the absence of a clear driver for 2H24, the outlook is not encouraging. We anticipate a somewhat negative trajectory the next two quarters, with different drivers at play. Some of them have been manifesting since the beginning of the year, such as: (1) Weakness in US industry; (2) lower base metal prices due to a global economic slowdown, especially in China; (3) the completion of local infrastructure works; and (4) some circumstantial factors that have added volatility within different sectors.

Specifically, we believe the trend in manufacturing could be flat at best, with risks skewed to the downside. Negative signals mainly come from the US, with timely indicators staying weak. *S&P Global's* manufacturing PMI for August remained in contraction, while the ISM manufacturing index already adds five months in that zone. Moreover, expectations for the second half are similar as interest rates are still high even if the start of the easing cycle seems imminent and domestic consumption is leaning more towards services. Focusing on autos, we maintain a favorable view –with production gaining momentum in August. However, we will be attentive to global auto demand and its possible changes given factors such as: (1) High production costs; and (2) new lines or reconfigurations towards EV production. On the latter, specific cases show some challenges, among them potential closures of *VW* and *Stellantis* plants in Europe, lower EV production targets by *Toyota*, and the delay or cancellation of EV launches by *Ford* and *General Motors*. On a more positive note, *VW* just reiterated its commitment to the state of Puebla to keep its plant in operation.

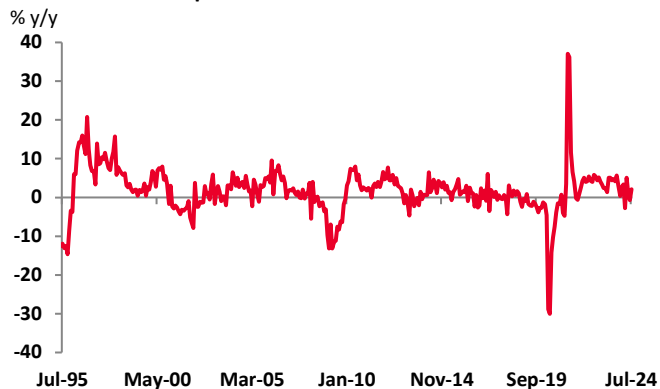
As we have mentioned previously, construction will remain impacted by the end of the federal government's infrastructure projects. At the same time, housing construction will likely stay somewhat weak for the remainder of the year, with a better outlook in 2025 as the plans of the new federal administration in this front get underway. Meanwhile, we expect industrial construction to stay supported in the second half. Finally, we do not rule out a possible boost to certain branches of extractive activities within mining, such as precious metals, due to lower interest rates and higher international prices. However, global economic weakness could be a headwind to other commodity prices, especially base metals.

Table 1: Industrial production

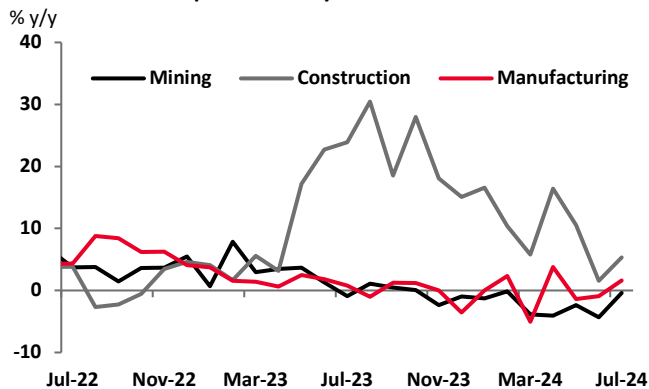
% y/y nsa, % y/y sa

	nsa				sa	
	Jul-24	Jul-23	Jan-Jul'24	Jan-Jul'23	Jul-24	Jul-23
Industrial Production	2.1	4.4	1.5	3.4	0.6	4.5
Mining	-0.4	-0.9	-2.4	2.6	-0.2	-0.7
Oil and gas	-4.9	1.5	-4.9	3.9	-4.9	1.5
Non-oil mining	9.1	-3.5	6.1	-1.2	9.2	-3.4
Services related to mining	4.4	-11.2	-10.8	6.0	5.9	-10.1
Utilities	2.6	1.2	2.6	1.8	2.7	1.2
Construction	5.3	23.9	9.3	11.0	4.4	22.5
Edification	13.7	6.7	8.5	2.1	12.6	5.9
Civil engineering	-13.3	130.8	16.0	70.1	-14.2	123.6
Specialized works for construction	1.5	6.1	2.7	0.5	0.4	5.3
Manufacturing	1.6	0.8	0.0	1.8	-0.6	1.0
Food industry	1.3	-0.7	-0.1	-0.8	-0.5	-0.6
Beverages and tobacco	2.8	-8.2	2.0	-3.7	0.5	-8.2
Textiles - Raw materials	1.0	-12.7	-6.4	-10.5	-2.1	-12.6
Textiles - Finished products ex clothing	-5.1	-0.6	-5.2	-0.9	-8.1	0.2
Textiles - Clothing	-2.7	-12.7	-6.9	-11.8	-6.2	-11.8
Leather and substitutes	-13.0	-0.6	-14.6	1.6	-16.1	0.1
Woodworking	-2.0	-14.4	-6.0	-12.6	-5.3	-14.0
Paper	-0.1	-9.0	-4.2	-3.7	-2.1	-8.6
Printing and related products	-0.8	-1.5	-3.6	-0.5	-4.0	-2.2
Oil- and carbon-related products	16.6	0.4	11.4	1.8	16.1	0.3
Chemicals	4.8	-4.8	2.8	-4.5	2.0	-4.7
Plastics and rubber	3.0	-5.4	-0.1	-1.8	0.2	-5.0
Non-metallic mineral goods production	-1.5	-2.5	-2.4	-1.1	-2.1	-2.6
Basic metal industries	-5.3	-1.1	-4.6	-0.2	-5.1	-0.7
Metal-based goods production	0.8	0.0	-2.0	-1.6	-2.2	-0.4
Machinery and equipment	-1.1	-3.0	-3.7	2.6	-3.7	0.2
Computer, communications, electronic, and other hardware	-1.6	1.3	1.2	2.3	-2.5	0.2
Electric hardware	6.0	3.6	-1.1	1.2	3.8	3.5
Transportation equipment	1.3	11.3	-0.3	11.6	-2.2	11.4
Furniture, mattresses, and blinds	-0.3	-8.3	-3.4	-8.3	-3.0	-8.7
Other manufacturing industries	6.7	2.6	6.8	3.0	5.0	2.7

Source: INEGI

Chart 1: Industrial production


Source: INEGI

Chart 2: Industrial production by sector


Source: INEGI

Table 2: Industrial production

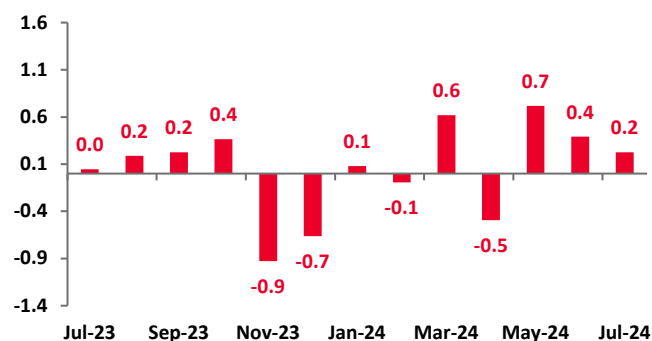
% m/m sa; % 3m/3m sa

	Jul-24	% m/m Jun-24	May-24	% 3m/3m May-Jul'24	Apr-Jun'24
Industrial Production	0.2	0.4	0.7	0.9	0.5
Mining	1.4	-1.9	2.0	0.0	-1.3
Oil and gas	-0.2	0.5	-0.3	-1.3	-2.4
Non-oil mining	0.4	-4.6	9.1	5.0	3.5
Services related to mining	14.8	-9.7	-1.1	-4.4	-8.9
Utilities	-0.9	-0.2	3.5	2.3	1.6
Construction	2.6	-2.2	2.4	3.4	2.8
Edification	4.3	-2.4	5.2	7.1	4.9
Civil engineering	-4.5	-1.5	-4.7	-7.0	-2.4
Specialized works for construction	4.3	-1.8	1.2	2.1	-0.8
Manufacturing	-0.8	2.0	0.0	0.2	-0.3
Food industry	0.4	0.3	0.5	0.1	-0.3
Beverages and tobacco	-2.1	-0.2	2.8	-1.1	-2.2
Textiles - Raw materials	1.0	2.0	0.0	-2.5	-4.2
Textiles - Finished products ex clothing	-0.6	-0.7	-0.7	-2.8	-3.2
Textiles - Clothing	0.9	1.6	1.8	-0.6	-5.4
Leather and substitutes	-1.6	-1.7	4.2	-0.1	-1.9
Woodworking	-3.3	3.3	1.7	0.9	-1.0
Paper	-1.7	0.6	0.3	0.1	0.8
Printing and related products	-0.6	-0.2	1.6	2.1	1.6
Oil- and carbon-related products	3.0	10.6	-2.6	-0.4	-5.9
Chemicals	0.2	-0.7	0.9	-1.4	-1.8
Plastics and rubber	-3.8	2.3	3.6	1.8	1.0
Non-metallic mineral goods production	0.3	-0.1	0.6	-1.0	-2.4
Basic metal industries	5.4	-6.3	-1.3	-4.5	-5.4
Metal-based goods production	-0.4	1.7	2.3	1.0	-1.3
Machinery and equipment	-2.3	2.3	-1.4	-1.0	-0.3
Computer, communications, electronic, and other hardware	-1.6	1.4	-1.8	-1.8	-1.3
Electric hardware	2.0	0.7	1.1	2.7	1.9
Transportation equipment	-3.1	5.8	0.8	2.7	2.1
Furniture, mattresses, and blinds	-0.5	3.4	-2.4	-2.8	-3.9
Other manufacturing industries	-2.6	1.2	4.6	1.9	0.5

Source: INEGI

Chart 3: Industrial production

% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmín Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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