October 11, 2024

Industrial production – Construction weakness in August drags performance

- **Industrial production (August): -0.9% y/y nsa; Banorte: 0.3%; consensus: 0.4% (range: 0.2%% to 1.1%); previous: 2.2%**
- **Industrial activity fell 0.5% m/m, ending with a three-month positive streak. It is worth noting that conditions seem to have improved externally, but some local challenges remain**
- **By sectors, we highlight the strong contraction in construction (-3.7%), with widespread losses inside. Meanwhile, manufacturing rose 0.3%, with 13 of its 21 categories higher and a special push from the auto sector. Lastly, mining climbed 0.1%, helped by volatility in 'related services'**
- **We expect a lateral path for industry towards the end of the year. Specifically, mixed conditions within manufacturing and construction, albeit with autos and edification providing support, respectively**

The annual print goes back into negative territory. Production fell 0.9% y/y (see Chart 1), below both consensus (0.4%) and our estimate (0.3%). Manufacturing was positive, up 0.1% (Chart 2). In contrast, construction fell 4.5% despite edification, which maintained its positive streak. Finally, mining has been in negative territory for 10 months, now at -1.2%. The month was characterized by a negative base effect and one less working day. Thus, with seasonally adjusted data, the result was slightly better at -0.3% y/y. For further details, please refer to Table 1.

The positive sequential streak ends. Activity fell 0.5% m/m, its first decline after three months of improvements (Chart 3). In the period, equivalent figures in the US surprised positively, driven by manufacturing. However, the outlook kept giving mixed signals, highlighting heterogeneity within the sectors, as detailed below. Regarding domestic factors, construction maintained a positive bias in confidence levels, but job losses seem to have been an obstacle. In mining, volatility in services continues to dictate the result.

Construction fell 3.7% (Table 2). The decline was driven by edification at -4.0%, erasing last month's gain and giving us some pause about recent results. Meanwhile, civil engineering dropped by only 0.5%, suggesting a more normalized base effect as works on priority projects continue to be deployed. Specialized works contracted 1.0%, consistent with the results across the sector.

Manufacturing grew 0.3%, partly recovering from the 0.8% drop of the previous month. In the US, the rebound was significant at 0.9%, although our country's manufacturing exports declined. In detail, 13 of the 21 categories were higher. The strongest increases were in plastics and rubber (+2.4%), transportation (+1.8%) –consistent with timely AMIA figures–, and metallic products (+1.5%), with a favorable base effect for the first two. The most relevant losses were in oil and carbon (-3.2%), electronics (-3.1%), and textile inputs (-1.1%).

Mining rose 0.1%. The main push came from an upward swing in 'related services', now at +3.9% –adding two months higher. Non-oil was flat (0.0%) despite the recovery of industrial metals' prices in the period. Lastly, the oil component fell 0.1%, contrasting with early figures that showed an increase in oil production, but with lower natural gas output.

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In the very short-term, manufacturing will maintain a more lateral behavior, with construction heterogeneous. We believe that industry will continue to grow for the remainder of 2024, albeit at a more marginal pace. We would classify this as positive in a challenging domestic and external context. In 2025, some drivers within construction and mining are likely to translate into an improvement, although still with some uncertainty for manufacturing.

For 4Q24, the push will remain centered on the construction of industrial parks –remembering that, so far in 2024, the edification component has shown greater progress vs. the construction of civil engineering works. According to Claudia Esteves, general director of the *Mexican Association of Private Industrial Parks* (AMPIP in Spanish), 72 parks are being built nationwide in 2024 (vs. 50 in 2023 and 15 in 2019). In addition, the association reports that only 2.2% of the 80 million m2 of these spaces are available. Regarding manufacturing, we still expect US industry to remain constrained by factors such as input prices and a weakening of domestic and external demand. Hence, we stay cautious in general terms, expecting a lateral trend. Despite of the latter, it is worth noting the positive impact of auto parts and automotive assembly. In this regard, the Mexican Association of the Automotive Industry (AMIA in Spanish) reported that: "*If this pace is maintained* [based on September's production]*, there is a strong possibility that by the end of 2024 we will reach new production and export records...*".

Towards 2025, some subsectors could regain dynamism and bring about a turnaround for industry. First, in mining, global demand for both energy and industrial metals could improve if: (1) There is an encouraging outcome from the counter-cyclical measures that China has begun to implement to reactivate its economy; (2) greater certainty for the investment environment in the US following the presidential election; and (3) the reactivation of global demand driven by an easing cycle by central banks. The last two factors could also imply that US manufacturing will recover dynamism. Finally, on the domestic front, the approval of the *2025 Budget* –which will presumably include some of the new administration's flagship infrastructure projects, as well as some social programs aimed at housing edification– could imply greater dynamism for construction.

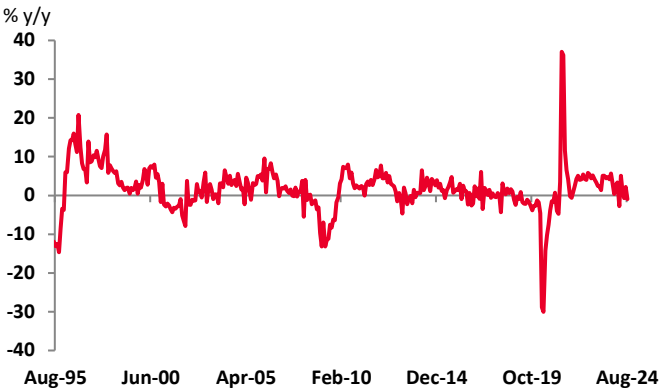
Table 1: Industrial production

% y/y nsa, % y/y sa

	nsa				sa	
	Aug-24	Aug-23	Jan-Aug'24	Jan-Aug'23	Aug-24	Aug-23
Industrial Production	**-0.9**	**4.7**	**1.2**	**3.6**	**-0.3**	**4.6**
Mining	**-1.2**	**1.1**	**-2.2**	**2.4**	**-1.3**	**1.1**
Oil and gas	-6.3	3.3	-5.1	3.8	-6.5	3.2
Non-oil mining	9.8	-4.0	6.6	-1.6	9.8	-4.0
Services related to mining	4.6	1.3	-9.0	5.4	4.1	1.4
Utilities	**2.2**	**5.4**	**2.5**	**2.3**	**2.0**	**5.1**
Construction	**-4.5**	**30.4**	**7.3**	**13.5**	**-4.1**	**29.6**
Edification	4.0	4.2	7.9	2.4	5.9	6.4
Civil engineering	-20.8	178.1	8.8	84.6	-23.4	164.2
Specialized works for construction	-4.6	15.5	1.7	2.2	-5.0	14.3
Manufacturing	**0.1**	**-1.0**	**0.0**	**1.4**	**0.7**	**-1.0**
Food industry	0.1	-0.2	-0.1	-0.8	0.3	-0.3
Beverages and tobacco	1.7	-8.1	2.0	-4.3	2.9	-8.0
Textiles - Raw materials	-5.2	-10.4	-6.2	-10.5	-4.0	-10.7
Textiles - Finished products ex clothing	-5.4	-3.1	-5.2	-1.2	-4.4	-2.5
Textiles - Clothing	-8.5	-9.1	-7.1	-11.4	-7.5	-9.8
Leather and substitutes	-17.6	-4.0	-15.0	0.8	-15.8	-4.7
Woodworking	-1.4	-6.4	-5.4	-11.8	-0.8	-6.9
Paper	-1.5	-7.2	-3.8	-4.1	-1.2	-7.6
Printing and related products	-6.8	0.0	-4.0	-0.4	-5.3	0.5
Oil- and carbon-related products	11.7	-0.3	11.4	1.5	10.9	-0.4
Chemicals	1.2	-2.9	2.6	-4.3	2.3	-2.2
Plastics and rubber	2.5	-5.5	0.3	-2.3	4.1	-5.6
Non-metallic mineral goods production	2.1	-4.1	-1.8	-1.5	2.4	-4.3
Basic metal industries	-11.5	7.7	-5.5	0.7	-11.5	8.0
Metal-based goods production	-1.5	2.7	-1.9	-1.1	-1.4	2.7
Machinery and equipment	-5.7	-1.1	-3.9	2.1	-4.2	-0.8
Computer, communications, electronic, and other hardware	-6.8	-2.7	0.2	1.6	-6.3	-2.0
Electric hardware	2.4	1.1	-0.7	1.2	3.0	1.0
Transportation equipment	3.2	1.3	0.2	10.1	4.5	0.3
Furniture, mattresses, and blinds	-1.0	-10.7	-3.1	-8.6	0.3	-10.5
Other manufacturing industries	9.0	-0.5	7.1	2.5	10.3	-0.1

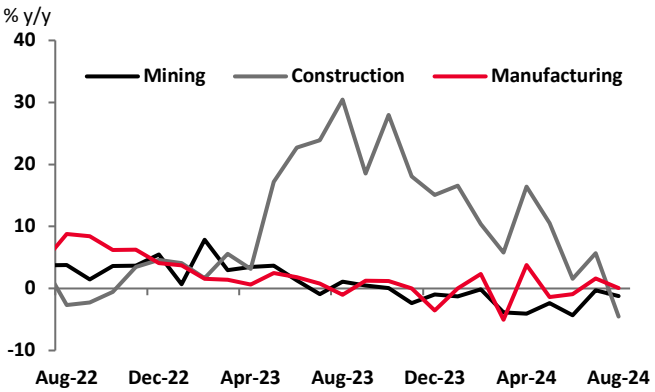
Source: INEGI

Chart 1: Industrial production



Source: INEGI

Chart 2: Industrial production by sector



Source: INEGI

Table 2: Industrial production

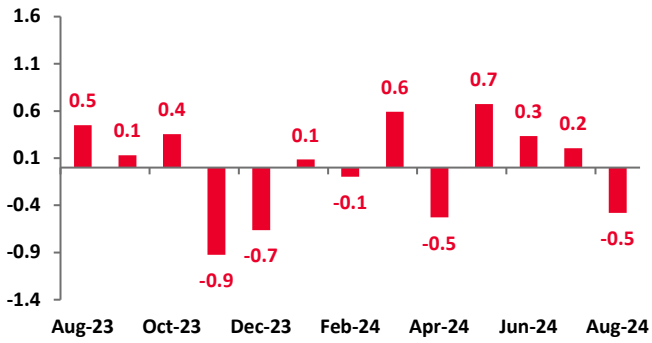
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-24	Jul-24	Jun-24	Jun-Aug'24	May-Jul'24
Industrial Production	**-0.5**	**0.2**	**0.3**	**0.6**	**0.8**
Mining	**0.1**	**1.5**	**-1.9**	**0.0**	**0.1**
Oil and gas	-0.1	-0.2	0.5	-0.4	-1.4
Non-oil mining	0.0	0.7	-4.6	0.9	5.0
Services related to mining	3.9	15.5	-9.3	1.0	-3.3
Utilities	**1.4**	**-1.0**	**-0.1**	**1.6**	**2.4**
Construction	**-3.7**	**2.3**	**-2.6**	**-0.5**	**2.4**
Edification	-4.0	3.7	-2.7	2.1	6.0
Civil engineering	-0.3	-3.5	-1.5	-7.3	-6.8
Specialized works for construction	-1.0	3.9	-1.9	1.7	1.7
Manufacturing	**0.3**	**-0.8**	**2.0**	**1.0**	**0.2**
Food industry	0.5	0.5	0.3	0.6	0.1
Beverages and tobacco	1.2	-1.9	-0.5	-1.2	-1.2
Textiles - Raw materials	-1.1	1.0	2.0	-0.9	-2.5
Textiles - Finished products ex clothing	0.0	-0.8	-0.8	-3.1	-2.9
Textiles - Clothing	0.9	0.9	1.6	2.1	-0.5
Leather and substitutes	-1.3	-1.7	-1.8	-1.8	-0.3
Woodworking	2.7	-2.8	3.0	2.8	1.0
Paper	1.1	-1.6	0.6	0.0	0.2
Printing and related products	-1.1	-0.6	-0.2	0.4	2.0
Oil- and carbon-related products	-3.2	2.9	10.6	5.1	-0.4
Chemicals	0.7	0.2	-0.7	-0.8	-1.1
Plastics and rubber	2.4	-3.8	2.2	1.5	1.7
Non-metallic mineral goods production	1.8	0.4	-0.1	1.0	-0.8
Basic metal industries	-1.5	5.3	-6.2	-4.1	-4.5
Metal-based goods production	1.5	-0.3	1.8	2.0	1.1
Machinery and equipment	-0.3	-2.4	2.2	-0.6	-1.1
Computer, communications, electronic, and other hardware	-3.1	-1.9	1.1	-2.9	-2.5
Electric hardware	-0.3	2.1	0.7	2.7	2.7
Transportation equipment	1.8	-3.1	5.8	4.4	2.7
Furniture, mattresses, and blinds	1.0	-0.5	3.5	0.6	-2.8
Other manufacturing industries	2.2	-2.5	1.3	1.6	2.0

Source: INEGI

Chart 3: Industrial production

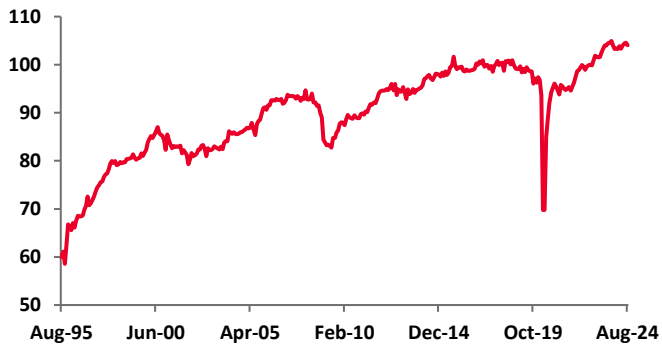
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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