Industrial production – Rebound in February, supporting dynamism at the start of the year

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- **Industrial production (February): 3.5% y/y nsa; Banorte: 3.3%; consensus: 2.9% (range: 2.1% to 3.5%); previous: 2.7%**
- **Sequentially, industry rebounded 0.7% m/m, driven by mining (4.1%) – noting related services. On the contrary, manufacturing declined 0.5%, albeit with a challenging base effect from the previous month, with construction also negative at -0.2%**
- **The result is consistent with a resilient industrial output, with the overall trend remaining positive while some other factors influence short-term dynamics. As such, we believe conditions so far in the quarter are still favorable**
- **We think the sector will maintain an upward path in coming months. However, some risks are gathering salience, especially as recession expectations seem to have risen in the last couple of weeks**

Acceleration in the annual rate, benefited by a less challenging base. Industry rose 3.5% y/y (see Chart 1), higher than consensus (2.9%) but closer to our estimate (3.3%). As there were no additional working days in the period, growth with seasonally adjusted figures also came in at 3.5% y/y, higher than INEGI's estimate in its *Timely Indicator of Economic Activity* at 2.9%. Back to original data, gains were centered in mining as it expanded 7.9%, with construction at 3.0%, and manufacturing up 2.4% (Chart 2). For details, see Table 1.

Industry returns to its upward trend. The sector grew 0.7% m/m (Chart 3), rebounding after the -0.1% of the previous month. Hence, production is 2.7% lower than its historical high reached in September 2015 (Chart 4). Mining led at 4.1%. Inside, the three categories were better, albeit with gains centered in related services to the sector, reaching 11.3%. Meanwhile, oil grew 0.4%, consistent with favorable results in gas (based on CNH and Pemex figures). Lastly, non-oil mining went up 1.2%, stringing four months up and in our view supported by China's reopening, among other factors.

On the other hand, construction backtracked 0.2%, it second decline in a row. Weakness centered in edification (-1.9%), probably impacted by recent price increases and high interest rates. In contrast, civil engineering rebounded strongly at 8.4%, with reports of an acceleration in the federal government's priority projects for them to be completed in schedule. More marginally, specialized works grew only 0.2%.

Lastly, manufacturing dropped 0.5%, not at all surprising as they advanced 0.6% in January. We identified some adverse drivers in the period, including: (1) A moderation in exports, despite US resiliency; and (2) that the Chinese reopening has not gathered full steam. Inside, 13 of the 21 categories fell (Table 2), highlighting oil and carbon (-9.1%), machinery and equipment (-3.9%), and electronic equipment (-2.3%).

On the contrary, gains were most relevant in textiles excluding clothing (2.9%), beverages and tobacco (1.6%), and transportation (1.3%), with the latter consistent with AMIA's report.

Dynamism to continue in coming months, despite additional challenges. The quarter's performance so far –with accumulated gains of 0.7% relative to December– suggests that activity will likely grow again. This would be positive considering muted expectations late last year, inserting upside risks to our 0.3% q/q forecast for GDP in 1Q23. We identified several positive drivers, including: (1) China's reopening, allowing for an additional normalization in lagging industries, such as autos; (2) resilience in US activity, including the industrial sector and the job market, despite further monetary tightening; (3) stronger-than-expected dynamism in the Eurozone; and (4) persistent interest in nearshoring, with relevant investment announcements since late last year.

We expect the spillover from these factors to extend, helping performance. Nevertheless, we warn that risks are increasing across several fronts. Among them, we note OPEC+'s recent announcement to cut oil output, which could have a two-fold effect on production: (1) An increase in costs given higher energy prices; and (2) additional monetary restriction to quell rising inflation due to the same factor. In this sense, supply issues remain important despite being driven by policy decisions, as in this case. However, pressures have been limited so far as they have been countered by expectations of lower demand due to the heightened possibility of a recession. This has been driven mostly by fears of an eventual impact to activity from banking sector problems in Europe and the US despite a swift response from authorities that seems to have contained some of its more harmful effects (*e.g.* contagion to the rest of the financial sector).

Looking ahead, we still see strength mostly in construction and manufacturing, with mining facing structural challenges. The former remains supported by infrastructure projects from the Federal Government –noting works related to the *Mayan Train*–, along with progress on industrial parks and other manufacturing facilities. Relatedly, President López Obrador stated that the first stage of the Trans-Oceanic Corridor train –between Salina Cruz and Coatzacoalcos– will likely be completed by October. In addition, that land in Veracruz and Oaxaca for the development of ten industrial parks along the planned route has already been secured. On the other hand, price dynamics remain as a challenge, noting relevant sequential increases in PPI during the last three months (up to March) –with an accumulated expansion of 4.6%.

On manufacturing, short-term signals from the US are mixed. *S&P Global*'s PMI for the sector gained, but *ISM* indicator reached a new post-pandemic low. However, we think opportunities for additional growth exist. As such, domestic auto production in March rose 2.1% m/m (using our in-house adjustment model). Regarding other sectors, we remain vigilant as key items such as appliances and some electronics might take a hit if global demand slows down. This is somewhat consistent with some corporate news, such as Apple's recent report of a meaningful decline (on a yearly basis) in computer sales.

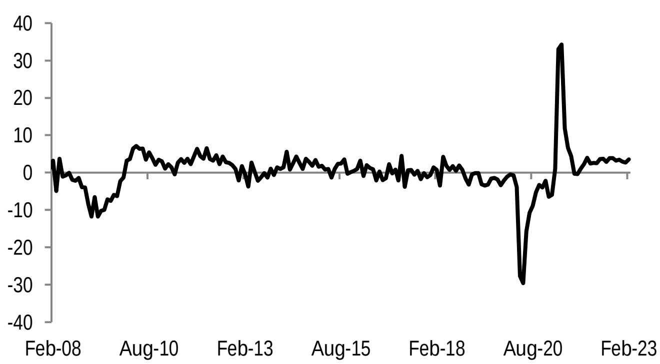
All in all, industry will likely maintain a positive trend in coming months, contributing to our full-year GDP forecast. Nevertheless, slower external demand could eventually affect domestic output.

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

	nsa				sa	
	Feb-23	Feb-22	Jan-**Feb'23**	Jan-**Feb'22**	Jan-23	Jan-22
Industrial Production	3.5	2.5	3.1	3.2	3.5	2.4
Mining	7.9	-3.4	1.5	3.0	7.7	-3.7
Oil and gas	1.2	-1.3	0.8	-0.3	0.8	-1.9
Non-oil mining	1.0	0.2	0.8	-0.7	0.7	-0.2
Services related to mining	83.5	-24.2	5.5	27.1	84.1	-23.8
Utilities	4.9	1.7	4.7	0.7	5.1	1.9
Electricity	6.4	1.7	6.0	0.4	6.6	2.1
Water and gas distribution	1.3	1.5	1.2	1.5	1.3	1.5
Construction	3.0	-2.9	2.8	-0.1	3.3	-2.1
Edification	-0.4	-4.6	1.2	-2.6	0.0	-4.0
Civil engineering	16.4	0.2	9.0	4.9	16.7	1.4
Specialized works for construction	7.7	2.8	4.8	7.1	8.7	4.1
Manufacturing	2.4	6.6	3.6	4.8	2.5	6.7
Food industry	0.9	2.9	1.3	2.3	0.9	2.9
Beverages and tobacco	2.6	12.4	3.2	8.9	2.4	12.0
Textiles - Raw materials	-10.9	12.1	-11.6	14.6	-10.8	12.5
Textiles - Finished products ex clothing	0.1	-2.2	-1.1	-3.4	-0.5	-3.1
Textiles - Clothing	-2.5	19.9	0.4	18.6	-2.4	20.2
Leather and substitutes	1.3	2.9	2.2	4.0	1.5	3.2
Woodworking	-5.8	7.7	-3.0	8.1	-5.4	8.4
Paper	0.1	9.6	-1.0	7.8	0.1	9.6
Printing and related products	0.1	16.7	3.9	16.6	-0.2	16.3
Oil- and carbon-related products	-7.6	18.2	0.4	16.4	-7.1	19.1
Chemicals	-7.3	8.8	-4.4	5.3	-7.2	9.1
Plastics and rubber	-3.3	7.9	-2.1	8.3	-3.3	8.2
Non-metallic mineral goods production	-0.5	5.7	2.9	4.7	-0.4	5.8
Basic metal industries	3.4	4.5	3.9	3.8	3.5	4.5
Metal-based goods production	1.4	3.7	1.9	1.0	1.1	3.4
Machinery and equipment	4.1	1.5	9.6	-0.5	5.0	2.7
Computer, communications, electronic, and other hardware	4.3	10.5	7.8	8.3	5.5	10.8
Electric hardware	4.6	4.9	5.2	5.4	4.7	5.1
Transportation equipment	11.7	6.9	10.3	3.6	11.7	7.0
Furniture, mattresses, and blinds	-14.2	11.6	-2.0	6.6	-13.6	11.6
Other manufacturing industries	3.3	5.8	5.5	5.3	3.3	5.8

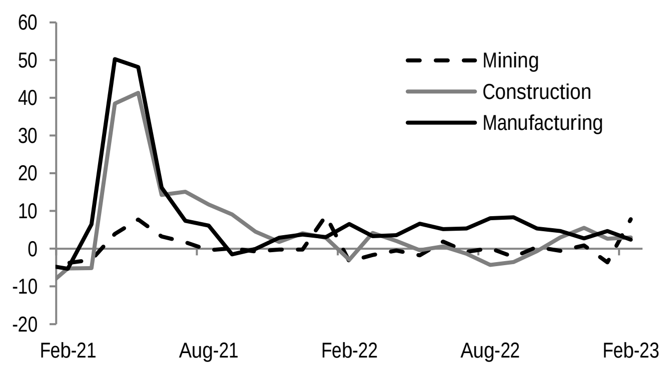
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



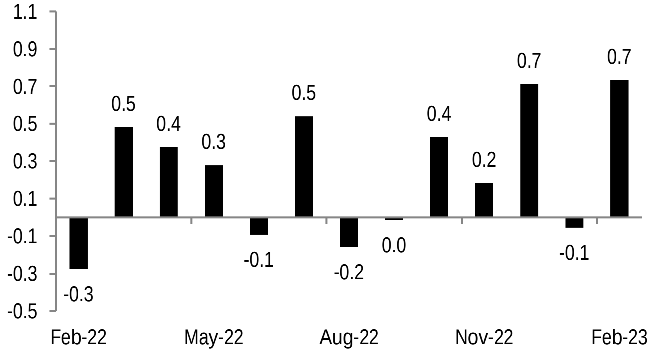
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-23	Jan-23	Dec-22	**Dec'22**-Feb'**2**3	**Nov'22**-Jan'**2**3
Industrial Production	0.7	-0.1	0.7	1.2	0.9
Mining	4.1	0.9	1.2	3.7	1.7
Oil and gas	0.4	1.3	0.0	1.0	0.2
Non-oil mining	1.2	1.5	0.1	1.6	0.8
Services related to mining	11.3	0.0	13.7	23.5	19.2
Utilities	0.3	0.8	1.2	2.1	1.3
Electricity	0.4	1.1	1.2	2.3	1.1
Water and gas distribution	0.4	0.2	0.3	0.5	0.2
Construction	-0.2	-1.5	2.6	2.7	3.4
Edification	-1.9	1.2	1.8	2.5	2.6
Civil engineering	8.4	-8.7	-1.9	1.5	7.5
Specialized works for construction	0.2	-8.7	8.8	3.6	5.3
Manufacturing	-0.5	0.6	0.5	0.5	0.1
Food industry	0.3	2.0	-1.4	-0.7	-1.1
Beverages and tobacco	1.6	1.5	0.5	1.0	-0.4
Textiles - Raw materials	0.8	2.9	-2.5	-3.2	-6.3
Textiles - Finished products ex clothing	2.9	-2.7	1.8	2.5	2.7
Textiles - Clothing	-1.5	5.3	1.9	-0.8	-5.2
Leather and substitutes	-1.3	1.3	3.5	0.0	-3.1
Woodworking	-1.2	0.0	-1.1	0.9	3.1
Paper	2.0	2.0	-2.6	-1.5	-2.8
Printing and related products	-2.2	-1.0	0.9	-0.6	1.1
Oil- and carbon-related products	-9.1	3.3	-11.0	-5.0	5.6
Chemicals	-2.0	1.6	2.4	0.3	-2.0
Plastics and rubber	-0.5	-1.6	2.5	-0.4	-2.0
Non-metallic mineral goods production	-4.6	4.6	0.4	2.2	2.4
Basic metal industries	-0.2	-2.1	2.0	2.7	4.3
Metal-based goods production	1.6	0.0	-1.2	-0.4	-0.5
Machinery and equipment	-3.9	-2.7	4.9	4.1	8.3
Computer, communications, electronic, and other hardware	-2.3	-2.9	2.6	-0.5	0.7
Electric hardware	0.1	1.3	2.1	2.3	0.9
Transportation equipment	1.3	-1.7	3.3	2.6	0.7
Furniture, mattresses, and blinds	-10.8	11.3	-7.2	-2.7	-0.1
Other manufacturing industries	-1.9	5.8	-1.3	0.9	-0.6

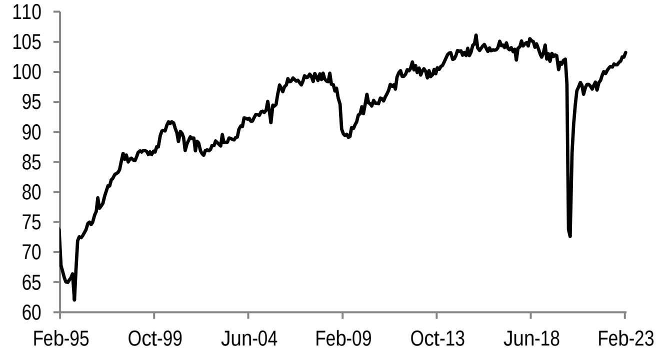
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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