Industrial production – Moderation in March as base effects become more difficult

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- **Industrial production (March): 1.6% y/y nsa; Banorte: 2.9%; consensus: 2.7% (range: 2.0% to 5.1%); previous: 3.3%**
- **Industry fell 0.9% m/m, with weakness centered in mining (-3.5%) –noting an adverse base effect in 'related services'. Manufacturing was also downbeat at -1.1%, while construction rebounded 1.3% after two straight months down**
- **The result suggests increased caution about industry because of the slowdown in manufacturing, even after considering higher volatility in the series, pushed up by mining. Nonetheless, we think that consumption fundamentals could still be supportive**
- **However, its dependence on external demand leaves it at a riskier position, especially as global recession expectations have increased**

Industry undershoots expectations. It rose 1.6% y/y (see Chart 1), below both consensus (2.7%) and our estimate. Seasonally adjusted, growth was an inch more modest at 1.5% y/y –despite no difference in working days. In addition, this was also lower than INEGI's *Timely Indicator of Economic Activity* at 3.0%. Back to original data, mining posted the largest increase at 2.2%, with construction at 2.1%, and manufacturing at 1.1% (Chart 2). For details, see Table 1.

Sequential decline, with weakness centered in mining. Industry fell 0.9% m/m (Chart 3), more than reversing the +0.5% of the previous month. The overall trend remains positive, with a clear upward path since 2021 (Chart 4). Looking at the breakdown, differences persist across sectors, with short-term drivers along idiosyncratic factors at play. Mining led the decline at -3.5%, in part impacted by a negative base effect. Most of the distortion centered in 'services related to mining', plunging 21.4% (previous: +10.2%). We must mention that this category has shown very high volatility since early 2022. Non-oil was also lower at -2.3%, likely impacted by global prices. On the contrary, oil grew 0.4%, with positive signals for output according to CNH, both for crude and gas.

In our view, manufacturing was the most negative surprise at -1.1%, accelerating its downfall at the margin. Timely signals were mixed, with US IP lower sequentially and IMEF's manufacturing PMI back to contraction territory. However, manufacturing exports were high, particularly in autos. In this context, 15 of the 21 categories were lower (Table 2), highlighting furniture (-7.1%), transportation (-2.5%), and beverages (-2.4%).

On a positive note, construction rose 1.3% after two months of setbacks. Edification rebounded 2.2% despite additional increases in the sector's PPI. Meanwhile, civil engineering backtracked 0.9%, albeit only after surging 6.8% in February, still with support from government projects. Lastly, 'specialized works' came in at -1.0%.

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Additional headwinds amid challenging external conditions. Today's result –along with the revisions to the previous two months– implies that industrial production grew 0.6% q/q in 1Q23, slightly lower that in the preliminary GDP report. By itself, this would not be enough to imply a revision to the sequential headline print, staying at 1.1%. This reaffirms that activity got underway at a relatively fast pace at the start of the year, benefiting from a positive inertial push and other favorable factors, such as: (1) A further normalization in supply chains after China's reopening; (2) US economic resilience; (3) government spending in social programs and infrastructure projects; and (4) continued interest in nearshoring.

However, risks have increased. Starting in China, the economy seems to be losing steam, especially domestically –despite some stimulus measures–, as evidenced by recent trade balance data. In the US, the economy has kept going with a resilient labor market. However, the perception about a coming recession seems to be rising, which could impact business expectations in coming months. This has been fueled by uncertainty regarding the banking sector and the spillover from the Fed's tightening cycle.

Domestically, signals are more mixed across different sectors. Manufacturing faces the largest exposure to external risks, particularly relevant given that some sectors continue with lingering supply issues –albeit to a lesser extent. However, short-term signals suggest some support. In this context, IMEF's manufacturing PMI returned to positive territory in April at 50.6pts –with all subsectors higher, except one. In the US, both the ISM and S&P Global PMI improved, with the latter back above 50pts for the first time since October.

Mining remains in a challenging position. Structural themes remain most relevant for oil, albeit with some recent news suggesting that Pemex could push for the development of around 360 new wells this year – which could also benefit 'related services'. As manufacturing, non-oil will remain at the mercy of global demand and price dynamics.

Lastly, construction seems stronger, with further announcements from firms in expanding or starting operations in our country. This has been a relevant driver since last year, and despite uncertainty and higher rates, we expect further progress. Additional support will keep coming from the Federal Government's priority projects, noting the recent push on the Mayan Train as the goal is to finish it by year-end. However, prices remain an obstacle, especially for the residential sector. Producer prices for the sector added a fourth month up at +0.2% m/m, although being its lowest expansion year-to-date.

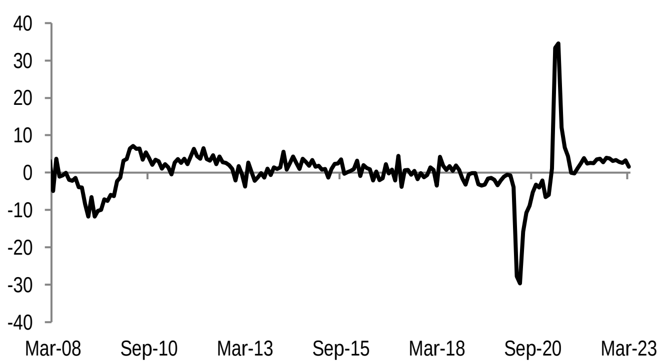
Overall, factory output seems poised to see more difficulties for an acceleration, leaving services (*e.g.* domestic demand) as the main driver for growth. All in all, it is our take that Mexico will extend last year's recovery, with fundamentals still supportive for growth, especially those related to consumption.

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

	nsa				sa	
	Mar-23	Mar-22	Jan-Mar'**23**	Jan-Mar'**22**	Mar-23	Mar-22
Industrial Production	1.6	2.6	2.5	3.0	1.5	2.4
Mining	2.2	-1.7	1.7	1.4	2.5	-1.4
Oil and gas	2.1	-1.9	1.2	-0.8	2.0	-2.0
Non-oil mining	-1.7	1.0	-0.1	-0.1	-1.7	1.1
Services related to mining	15.3	-7.6	7.3	18.9	20.0	-7.2
Utilities	4.0	2.1	4.3	1.2	3.7	1.2
Electricity	5.2	2.5	5.6	1.1	4.8	1.3
Water and gas distribution	0.5	1.1	0.8	1.3	0.6	1.2
Construction	2.1	4.0	2.1	1.1	2.0	2.0
Edification	-0.1	5.5	0.2	0.2	-0.5	2.8
Civil engineering	11.3	0.2	9.2	3.4	11.4	-0.3
Specialized works for construction	3.6	1.5	4.9	3.7	4.2	2.2
Manufacturing	1.1	3.4	2.7	4.3	0.8	3.5
Food industry	-0.2	1.6	0.8	2.0	0.0	1.4
Beverages and tobacco	-0.4	5.4	1.9	7.7	1.2	6.2
Textiles - Raw materials	-12.1	9.6	-11.9	12.8	-11.8	4.1
Textiles - Finished products ex clothing	-5.3	-6.6	-2.5	-4.5	-4.8	-9.5
Textiles - Clothing	-2.7	13.7	-0.7	16.7	-2.1	13.6
Leather and substitutes	-3.4	12.5	0.1	7.1	-3.2	7.1
Woodworking	-15.8	9.8	-7.7	8.5	-15.1	7.7
Paper	-1.1	6.4	-1.1	7.2	-1.0	6.4
Printing and related products	-0.3	15.1	2.4	15.8	-0.3	14.0
Oil- and carbon-related products	5.8	1.4	2.3	10.8	5.5	0.7
Chemicals	-5.4	8.9	-4.8	6.5	-6.0	9.7
Plastics and rubber	-1.9	7.3	-2.1	8.1	-1.9	5.4
Non-metallic mineral goods production	1.5	4.4	2.4	4.7	1.8	2.0
Basic metal industries	1.5	2.2	3.0	3.9	1.9	2.7
Metal-based goods production	-2.8	0.8	0.2	0.7	-3.4	-0.9
Machinery and equipment	-1.1	-1.2	5.6	-0.8	-1.0	-4.3
Computer, communications, electronic, and other hardware	6.1	5.0	7.2	7.1	6.9	4.9
Electric hardware	4.6	0.1	5.0	2.8	4.9	-3.0
Transportation equipment	6.7	1.9	8.9	2.9	6.1	0.3
Furniture, mattresses, and blinds	-19.4	8.6	-8.2	7.5	-19.0	9.0
Other manufacturing industries	2.7	1.7	4.5	4.3	3.1	2.3

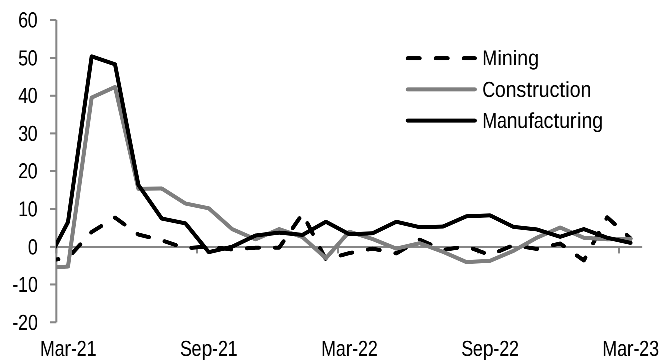
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



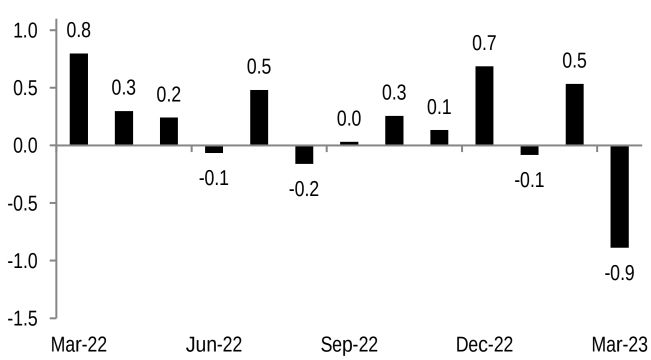
Source: INEGI

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

	% m/m			% 3m/3m	
	Mar-23	Feb-23	Jan-23	Jan-Mar'23	Dec'22-Feb'23
Industrial Production	-0.9	0.5	-0.1	0.5	1.0
Mining	-3.5	3.9	0.5	2.5	3.2
Oil and gas	0.4	0.4	1.4	1.6	1.0
Non-oil mining	-2.3	1.1	1.4	1.6	1.5
Services related to mining	-21.4	10.2	-1.5	4.3	19.0
Utilities	0.9	0.3	0.8	2.2	2.1
Electricity	1.7	0.1	1.1	2.7	2.3
Water and gas distribution	-0.2	0.1	0.1	0.2	0.3
Construction	1.3	-0.4	-1.8	0.7	2.7
Edification	2.2	-2.1	1.2	1.8	2.4
Civil engineering	-0.9	6.8	-8.7	-3.0	1.0
Specialized works for construction	-1.0	-0.1	-9.8	-4.1	3.1
Manufacturing	-1.1	-0.7	0.6	-0.1	0.3
Food industry	-0.8	0.3	2.0	0.6	-0.7
Beverages and tobacco	-2.4	1.1	1.5	1.1	0.6
Textiles - Raw materials	-2.5	0.6	2.6	-0.7	-3.5
Textiles - Finished products ex clothing	-3.8	2.8	-2.7	-0.1	2.2
Textiles - Clothing	0.9	-1.4	5.3	3.1	-0.7
Leather and substitutes	-0.3	-1.3	1.3	1.1	0.0
Woodworking	-5.7	-1.5	-0.4	-3.6	0.2
Paper	-1.1	1.9	1.9	0.9	-1.6
Printing and related products	-0.2	-2.3	-1.2	-3.2	-0.9
Oil- and carbon-related products	9.0	-9.0	3.4	-5.4	-4.6
Chemicals	1.3	-1.8	1.5	1.0	0.3
Plastics and rubber	1.0	-0.4	-1.7	-0.9	-0.4
Non-metallic mineral goods production	2.1	-4.9	4.5	2.0	2.2
Basic metal industries	-1.9	-0.3	-2.2	-0.9	2.5
Metal-based goods production	-2.1	1.3	-0.3	-0.9	-0.9
Machinery and equipment	-2.2	-3.6	-4.1	-3.1	3.7
Computer, communications, electronic, and other hardware	0.4	-2.5	-3.0	-2.9	-0.8
Electric hardware	-0.2	0.0	1.2	2.2	2.2
Transportation equipment	-2.5	1.1	-1.8	0.2	2.3
Furniture, mattresses, and blinds	-7.1	-10.9	10.9	-3.5	-2.9
Other manufacturing industries	-2.3	-2.3	5.5	1.9	1.0

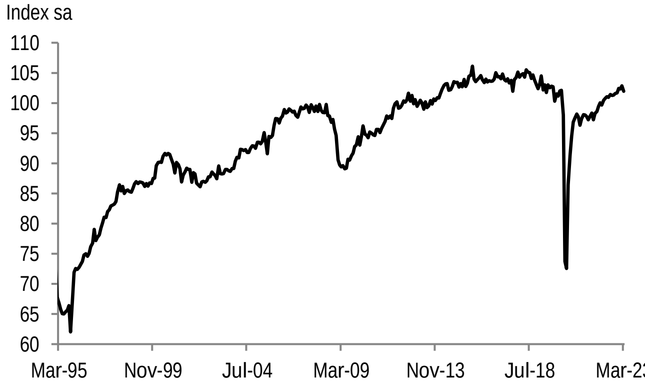
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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