

Industrial production – April rebound, albeit mixed among sectors

- **Industrial production (April): 0.7% y/y nsa; Banorte: 1.0%; consensus: 1.3% (range: 1.0% to 3.2%); previous: 1.5%**
- **Although the result was below expectations, industry picked up 0.4% m/m seasonally adjusted. This was not enough to reverse the -0.9% seen in March. Growth was led by manufacturing (2.1%) and mining (0.3%), but with a downward surprise in construction (-2.0%)**
- **We believe that industry remains in a relatively more fragile position due to the relative deceleration in global trade that could mainly affect manufacturing. In contrast, construction should maintain a more favorable trend, in our view pushed in part by nearshoring**
- **However, overall growth will likely be more subdued in the second half of the year**

Industry surprises to the downside, again. The total rose 0.7% y/y (see [Chart 1](#)), below consensus (1.3%), but closer to our 1.0%. Mining led again at 1.9%, followed by manufacturing (1.4%). Meanwhile, construction (-2.0%) contracted for the first time since last October ([Chart 2](#)). Despite of this, it grew 1.6% y/y with seasonally adjusted figures, slightly lower than [INEGI's Timely Indicator of Economic Activity](#), mainly because of distortions related to the Easter holiday. For details, see [Table 1](#).

Mixed sequential uptick, partly due to base effects. Industry advanced 0.4% m/m ([Chart 3](#)), which is favorable. However, it was not enough to reverse March's 0.9% contraction, its largest setback since September 2021. The result was to some extent explained by base effects. More positive though, the uptrend continues ([Chart 4](#)) despite a global environment that has become more complicated for the demand of goods relative to services.

The largest rebound was in manufacturing at (2.1%) after two consecutive months of lower activity. Looking at the details, outperformance was seen in textiles excluding clothing (14.3%), and metallic products (6.3%). Transportation stood at 6.6%, in part because of base effects as auto exports within the trade balance were weak, also hinting at potential inventory adjustments. Other industries with relevant changes included beverages (-3.6%), clothing (-3.0%) and non-metallic goods (-3.0%), as shown in ([Table 2](#)).

Mining (0.3%) inched higher, led by 'related services' (2.4%) which stood out again for its high volatility. Non-oil advanced 1.1%, while oil was more stable at -0.1%. Nonetheless, the latter contrasted with CNH figures, which alluded to higher extraction of oil and gas.

Finally, construction plunged 2.0%, surprising to the downside, Despite being lower relative to other subsectors, this happened after the +1.0% of the previous month. We highlight that edification weakened 2.9%, probably dragged by the residential category as input prices have remained pressured in recent months.

June 9, 2023

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Nevertheless, we believe that some support could be in place due to nearshoring, especially in new factories. Civil engineering surged 4.3%, while 'specialized works' resulted in -2.2%.

Manufacturing could limit growth in the short term. As we have recently warned, data suggests that risks to industrial performance remain concentrated in external demand, which would have a greater relative impact on manufacturing. In this regard, China's May trade balance was mixed to negative. Exports contracted 7.5% y/y, while imports declined 4.5%. Figures point to a moderation of the strength seen at the start of the year due to a greater global slowdown. In turn, this has led to additional speculation of further stimulus measures. In the US, the sector's PMI came in at 48.4pts in May, with the report mentioning that demand conditions deteriorated. New export orders showed a further decline and foreign sales were at their worst level since May 2009 when excluding the worst period of the pandemic.

Regarding global supply chains, conditions improved further. According to the New York Fed's global supply chain index, stress reached an all-time low in May (series since 1997). However, we could see new issues at West Coast ports as port and cargo company employees have not agreed on how to distribute profits, with tensions exacerbating because of lower shipping rates. According to *Bloomberg*, this could affect 29 ports from California to Washington if no solution is found, including Long Beach and Los Angeles, with such problems already beginning to affect the flow of some goods.

Turning to construction, recent developments still allude to some dynamism. Minister of Finance Rogelio Ramirez de la O told a forum recently that the benefits of nearshoring may be underestimated because many plans are underway, but have not been formally announced, or because preliminary announcements do not include all their investment potential. Currently, strength can be seen in the demand for industrial facilities (with an occupancy rate of 97%) and new jobs generated in this sector. In this context, he stated that at least 20 investment announcements have been made because of this phenomenon this year. This implies a total close to US\$13 billion, with 54% directed to the automotive and auto parts sectors. In addition, fiscal incentives have been announced and published to attract investments to the Inter-Oceanic Corridor of the Isthmus of Tehuantepec, including: (1) 100% income tax deductions for some years; (2) VAT exemptions; and (3) accelerated depreciation of machinery and equipment. Public infrastructure spending will probably provide additional help in this category.

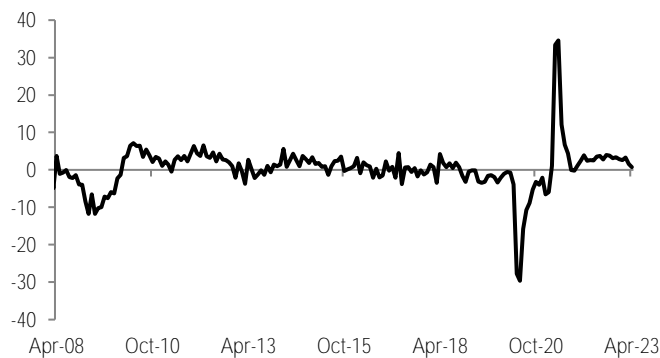
In this context, performance by sector will likely differ. Overall, we believe growth could continue, albeit at a more modest pace, especially as manufacturing constitutes a big proportion of total industry. Notwithstanding, US economic resiliency and our view that a recession this year will be avoided are positive factors for GDP for the remainder of 2023.

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

	nsa				sa	
	Apr-23	Apr-22	Jan-Apr'23	Jan-Apr'22	Apr-23	Apr-22
Industrial Production	0.7	2.5	2.0	2.9	1.6	2.8
Mining	1.9	-0.5	1.8	1.0	1.9	-0.5
Oil and gas	3.6	-3.3	1.8	-1.5	3.5	-3.5
Non-oil mining	-0.2	1.3	-0.1	0.2	-0.1	1.4
Services related to mining	-5.7	21.9	4.9	19.4	-7.7	24.5
Utilities	0.6	2.3	3.3	1.5	0.7	2.8
Electricity	0.6	2.7	4.2	1.5	0.7	3.5
Water and gas distribution	0.6	1.2	0.8	1.3	0.6	1.1
Construction	-2.0	2.0	1.0	1.4	-1.7	2.3
Edification	-6.5	2.9	-1.6	0.8	-6.4	3.2
Civil engineering	25.9	-5.8	13.3	0.9	26.4	-5.5
Specialized works for construction	-3.7	4.7	2.4	3.9	-2.6	5.5
Manufacturing	1.4	3.6	2.4	4.1	3.2	4.0
Food industry	-1.7	2.2	0.2	2.1	-0.4	2.8
Beverages and tobacco	-6.4	8.0	-0.3	7.8	-4.3	8.3
Textiles - Raw materials	-13.9	0.7	-12.4	9.7	-12.6	8.1
Textiles - Finished products ex clothing	9.5	-6.0	0.2	-4.8	12.0	-4.5
Textiles - Clothing	-7.3	6.8	-2.3	14.1	-4.8	8.7
Leather and substitutes	2.5	1.6	0.7	5.7	4.7	6.5
Woodworking	-9.3	-7.1	-8.1	4.4	-6.7	-4.0
Paper	-1.5	2.7	-1.2	6.0	-0.8	2.0
Printing and related products	-10.1	10.7	-0.8	14.5	-8.9	13.2
Oil- and carbon-related products	1.1	39.7	2.0	17.2	0.8	39.6
Chemicals	-0.1	8.2	-3.7	6.9	1.4	8.4
Plastics and rubber	-4.6	0.7	-2.7	6.2	-2.8	4.5
Non-metallic mineral goods production	-2.6	1.5	1.2	3.9	-2.2	3.6
Basic metal industries	-1.0	2.6	2.0	3.6	-0.8	2.9
Metal-based goods production	2.8	-0.4	0.8	0.5	4.6	2.5
Machinery and equipment	3.1	3.6	5.1	0.3	4.3	8.4
Computer, communications, electronic, and other hardware	1.6	12.9	5.9	8.6	3.4	11.2
Electric hardware	1.0	-1.2	4.0	1.8	1.7	1.6
Transportation equipment	13.7	-1.7	10.1	1.8	16.1	0.0
Furniture, mattresses, and blinds	-10.1	3.2	-8.6	6.6	-7.8	7.9
Other manufacturing industries	-1.8	8.8	3.1	5.4	-0.5	10.2

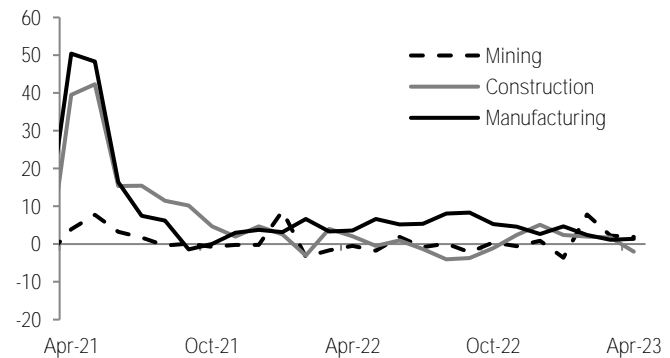
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



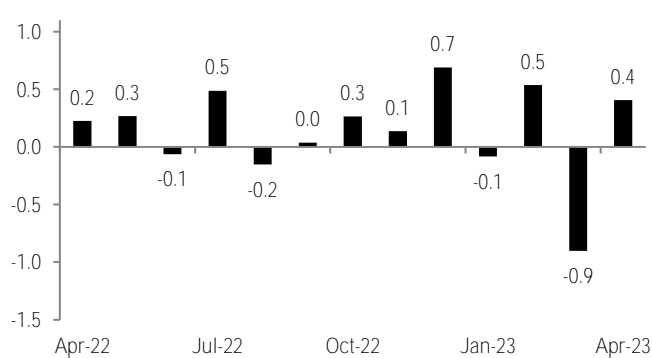
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-23	Mar-23	Feb-23	Feb-Apr'23	Jan-Mar'23
Industrial Production	0.4	-0.9	0.5	0.2	0.5
Mining	0.3	-3.5	3.8	2.2	2.5
Oil and gas	-0.1	0.3	0.5	1.6	1.7
Non-oil mining	1.1	-2.3	1.3	1.1	1.8
Services related to mining	2.4	-20.8	13.0	0.5	5.7
Utilities	-2.0	1.0	-0.1	0.7	1.7
Electricity	-3.2	1.8	-0.1	1.0	2.3
Water and gas distribution	0.5	-0.1	0.1	0.3	0.2
Construction	-2.0	1.0	-0.7	-1.1	0.1
Edification	-2.9	2.0	-2.5	-1.0	0.9
Civil engineering	4.3	-0.2	7.5	1.6	-2.5
Specialized works for construction	-2.2	-1.6	-0.5	-6.2	-4.9
Manufacturing	2.1	-0.8	-0.5	0.3	0.3
Food industry	0.6	-0.8	0.3	0.8	0.6
Beverages and tobacco	-3.6	-3.1	1.5	-0.7	1.1
Textiles - Raw materials	1.2	-2.5	0.6	0.2	-0.7
Textiles - Finished products ex clothing	14.3	-5.0	3.0	3.3	0.2
Textiles - Clothing	-3.0	0.9	-1.6	2.0	2.8
Leather and substitutes	4.2	0.1	-1.2	2.2	1.3
Woodworking	3.4	-6.1	-1.5	-5.1	-3.7
Paper	2.5	-0.6	2.0	2.9	1.3
Printing and related products	-5.3	-0.5	-2.4	-5.0	-3.6
Oil- and carbon-related products	0.3	9.1	-9.2	-5.2	-5.4
Chemicals	6.0	1.5	-1.0	3.3	0.9
Plastics and rubber	-0.8	1.0	-0.5	-0.4	-1.0
Non-metallic mineral goods production	-3.0	1.5	-4.7	-1.8	2.0
Basic metal industries	-1.3	-1.9	-0.4	-2.9	-1.0
Metal-based goods production	6.3	-3.1	1.8	1.4	-0.4
Machinery and equipment	5.6	-2.2	-3.7	-4.1	-2.8
Computer, communications, electronic, and other hardware	0.7	0.6	-2.5	-3.1	-2.9
Electric hardware	-0.1	-0.3	0.0	1.3	2.1
Transportation equipment	6.6	-1.4	1.5	2.7	1.1
Furniture, mattresses, and blinds	5.8	-6.4	-11.0	-9.2	-3.3
Other manufacturing industries	2.3	-1.9	-2.2	0.6	2.2

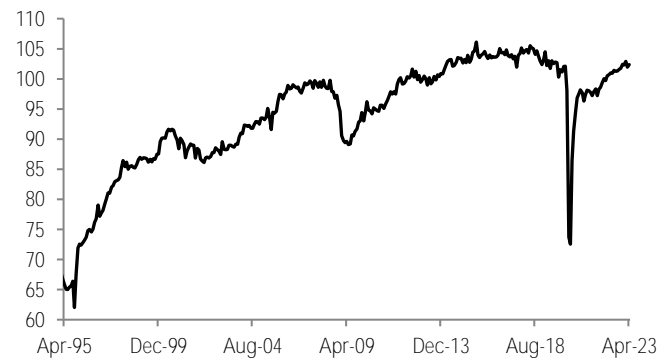
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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