Industrial production – Strength extended to May, now supported by construction

- **Industrial production (May): 3.9% y/y nsa; Banorte: 2.2%; consensus: 1.6% (range: 0.7% to 2.8%); previous: 0.7%**
- **In sequential terms, industry shot up 1.0% m/m. Construction outperformed at 7.2%, with mining also higher at 1.7%. Nevertheless, manufacturing declined 1.4% on a more challenging base effect**
- **Some evidence still points to a deceleration in global activity that may be having an impact in local industry, mainly manufacturing. However, construction –to a larger extent– and mining have offset much of this, with the former benefited by nearshoring and infrastructure spending from the Federal Government**
- **In this context, headwinds for industry will keep coming through manufacturing, albeit still expecting some resiliency given a more favorable US outlook. In addition, construction will likely continue providing support despite a high interest rate environment**

Industry supported by a positive base effect, favorable seasonality, and additional dynamism in some sectors. Industry increased 3.9% y/y (see Chart 1), surprising relative to consensus (1.6%) and our forecast (2.2%). Inside, construction led at 9.2%, followed by mining at 5.1%. Meanwhile, manufacturing stood at 1.9%. (Chart 2). Considering that the period is characterized by a more favorable seasonality, with adjusted figures growth was 2.8% y/y, considerably higher than the 1.4% within INEGI's *Timely Indicator of Economic Activity*. For details, see Table 1.

Relevant sequential uptick, with construction driving the increase. Industry climbed 1.0% m/m (Chart 3), quite positive after the +0.5% of the previous month. While base effects remained at play, some figures suggest a pick-up in dynamism, at least in domestically oriented sectors (Chart 4). On the contrary, weakness from abroad seems to be influencing manufacturing, relevant as headwinds in Asia and Europe keep building. By sectors, construction rocketed up 7.2%, finally reaching pre-pandemic levels. The expansion centered in civil engineering at +29.2% –not ruling out a push ahead of the elections in the State of Mexico and Coahuila–, consistent with higher spending on physical investment by the Federal Government. Meanwhile, edification (2.4%) and 'specialized works' (3.0%) had increases more consistent with favorable base effects. As such, we believe the latter two remain somewhat constrained by higher input prices.

Mining rose 1.7%, with mixed figures inside. Oil expanded 2.3%, in line with CNH's figures that showed higher output. Meanwhile, non-oil declined 1.0%, likely dampened by low prices. Finally, 'related services' came in at 2.9%, modest considering the sector's volatility in the last two years.

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Lastly, manufacturing fell 1.4%. This is not entirely surprising if we consider the relatively low dynamism in US industry. Inside, 16 out of the 21 sectors declined. Losses centered in textile branches (raw materials: -4.7%; excluding clothing: -8.1%; clothing: -8.1%), along chemicals (-6.5%) and oil and carbon (-6.3%). Meanwhile, transportation was more resilient at +0.8%, with notable gains in electronic equipment (+3.3%). For additional details see Table 2.

Headwinds for manufacturing still gathering momentum, while domestic conditions could remain relatively more stable. As mentioned in previous reports, industry's dynamism in coming months may be affected by weaker foreign demand, especially through manufacturing. Fears of a recession or a deeper slowdown in the US remain high, while the Chinese economy has failed to expand its domestic demand. Timely data shows that these trends will likely continue. In the US, the sector's PMI remains in contraction –at 46.3pts in June, its lowest level in 6 months– with reports of more modest demand on high interest rates, inflationary pressures, and a shift towards services consumption. In China, exports in May fell 7.5% y/y (below expectations), while the *Caixin* manufacturing PMI declining to 50.5pts in June. Despite of the latter, the manufacturing sector could be supported at the margin by cheaper inputs and the catch-up in the auto sector as key supplies (*e.g.* semiconductors) have become more available.

Regarding mining, specifically oil, output in the short-term will affected by last week's incident at the *Nohoch-Alfa Center*. According to Pemex's CEO, Octavio Romero, the loss over the first couple of days was close to 700kbpd (43% of its daily production), although with 600 thousand barrels being recovered over the weekend. As such, we await final company figures to fully assess the impact. In non-oil, according to the annual report from the Mexican Mining Chamber (CAMIMEX), the level of investment in the sector during 2023 is estimated at US$5,210.6 million, +1% vs. 2022. In addition, there are projects that increase production in the medium-term, such as the extraction of zinc (in Sonora and Zacatecas) and higher demand for copper in the context of electric car production and the use of renewable energies (Baja California, Guerrero, Sonora, and Zacatecas).

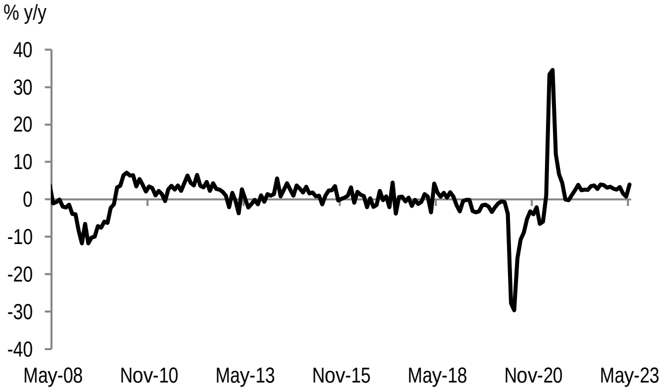
Finally, on construction, short-term dynamism could remain propped up by government spending as work in key projects accelerates to finish them before the end of the current presidential term. In addition, we maintain our view of a positive trend in the medium-term, bolstered by demand for industrial spaces keeps growing on the back of nearshoring.

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

	nsa				sa	
	May-23	May-22	Jan-May'**23**	Jan-May'**22**	May-23	May-22
Industrial Production	3.9	3.6	2.4	3.0	2.8	3.2
Mining	5.1	-1.8	2.4	0.4	5.1	-1.8
Oil and gas	5.4	-2.4	2.5	-1.7	5.3	-2.5
Non-oil mining	-0.2	-0.7	-0.1	0.0	0.0	-0.4
Services related to mining	15.7	1.1	6.6	16.2	15.4	0.9
Utilities	2.0	5.2	3.1	2.2	1.7	4.8
Electricity	2.5	6.4	4.0	2.6	2.2	5.9
Water and gas distribution	0.3	1.6	0.6	1.4	0.2	1.5
Construction	9.2	-0.4	2.6	1.0	8.1	-1.1
Edification	3.8	-4.2	-0.5	-0.2	2.7	-4.6
Civil engineering	53.3	4.8	21.9	1.7	51.9	4.1
Specialized works for construction	-4.9	14.0	0.3	5.7	-5.7	12.1
Manufacturing	1.9	6.6	2.3	4.6	0.3	6.2
Food industry	-3.1	3.5	-0.5	2.4	-4.2	3.4
Beverages and tobacco	-7.0	8.7	-1.8	8.0	-9.0	8.6
Textiles - Raw materials	-15.5	5.4	-13.0	8.8	-16.2	5.0
Textiles - Finished products ex clothing	4.5	-2.6	1.0	-4.4	2.2	-3.3
Textiles - Clothing	-11.6	3.4	-4.2	11.7	-12.7	1.7
Leather and substitutes	-2.2	9.4	0.1	6.5	-4.6	8.4
Woodworking	-12.5	-2.9	-9.0	2.8	-13.6	-4.1
Paper	-2.6	3.0	-1.5	5.3	-4.4	2.1
Printing and related products	6.2	11.6	0.6	13.9	4.2	9.6
Oil- and carbon-related products	-5.4	23.5	0.5	18.4	-5.0	24.8
Chemicals	-3.6	6.8	-3.6	6.9	-4.6	6.2
Plastics and rubber	-4.0	5.7	-3.0	6.1	-5.4	4.2
Non-metallic mineral goods production	-0.4	1.9	0.9	3.5	-0.8	1.6
Basic metal industries	-5.7	4.8	0.4	3.8	-5.7	4.8
Metal-based goods production	3.6	3.9	1.4	1.1	0.5	3.7
Machinery and equipment	3.5	11.2	4.7	2.5	1.2	9.4
Computer, communications, electronic, and other hardware	8.8	13.7	6.5	9.6	6.0	15.6
Electric hardware	1.7	4.8	3.6	2.4	0.0	3.8
Transportation equipment	17.9	8.3	11.7	3.0	15.1	6.4
Furniture, mattresses, and blinds	-7.9	5.1	-8.4	6.3	-9.9	2.1
Other manufacturing industries	2.1	4.0	2.9	5.1	0.5	2.3

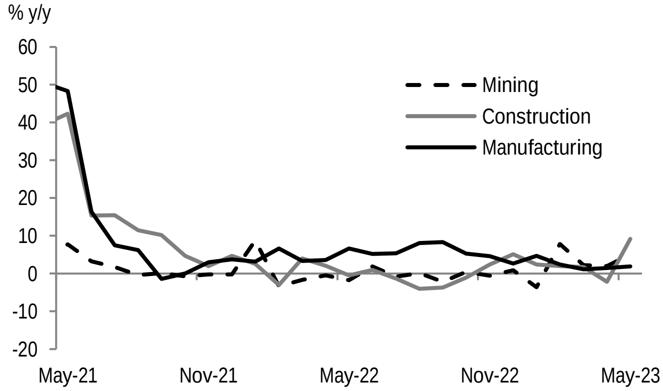
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



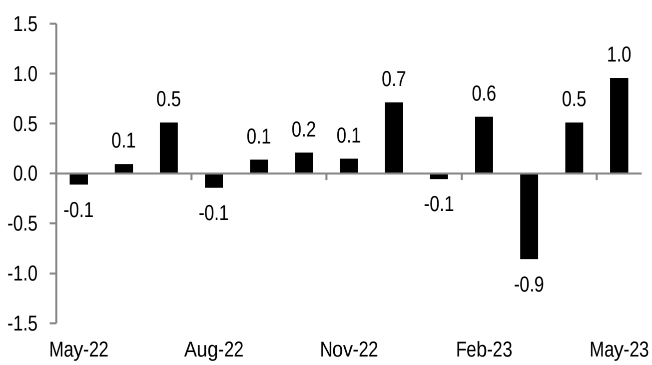
Source: INEGI

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

	% m/m			% 3m/3m	
	May-23	Apr-23	Mar-23	Mar-May'23	Feb-Apr'23
Industrial Production	1.0	0.5	-0.9	0.2	0.4
Mining	1.7	0.4	-3.3	0.1	2.3
Oil and gas	2.3	0.3	0.5	2.3	2.0
Non-oil mining	-1.0	1.2	-2.5	-0.6	1.1
Services related to mining	2.9	4.3	-21.8	-12.4	0.5
Utilities	1.8	-1.6	1.1	0.8	0.9
Electricity	2.4	-2.3	1.5	1.1	1.3
Water and gas distribution	0.3	0.1	-0.2	0.1	0.1
Construction	7.2	-2.7	1.4	1.2	-0.4
Edification	2.9	-2.4	2.2	0.3	-0.5
Civil engineering	29.2	4.9	0.1	15.7	2.3
Specialized works for construction	3.0	-5.3	-1.7	-8.1	-7.3
Manufacturing	-1.4	2.1	-0.8	0.0	0.2
Food industry	-3.0	0.6	-1.5	-1.1	0.5
Beverages and tobacco	-4.1	-2.8	-3.5	-5.1	-0.6
Textiles - Raw materials	-4.7	0.9	-2.8	-2.6	-0.4
Textiles - Finished products ex clothing	-8.1	13.8	-4.1	3.0	3.5
Textiles - Clothing	-8.1	-3.4	0.7	-3.8	1.4
Leather and substitutes	-6.2	5.4	-0.3	0.6	2.1
Woodworking	-4.6	1.6	-4.7	-6.4	-5.0
Paper	-2.0	3.1	-0.7	2.6	2.9
Printing and related products	9.2	-6.0	-0.3	-3.4	-5.0
Oil- and carbon-related products	-6.3	0.1	8.7	1.0	-5.5
Chemicals	-6.5	6.3	1.3	2.8	3.2
Plastics and rubber	-1.4	-1.1	1.0	-1.3	-0.8
Non-metallic mineral goods production	0.1	-2.7	1.6	-2.0	-1.7
Basic metal industries	-2.8	-1.5	-2.0	-4.9	-3.1
Metal-based goods production	-3.0	6.7	-3.0	1.6	1.6
Machinery and equipment	-1.3	5.9	-2.3	-2.7	-4.1
Computer, communications, electronic, and other hardware	3.3	1.0	0.6	-0.3	-2.8
Electric hardware	-0.6	-0.2	-0.3	-0.3	1.1
Transportation equipment	0.8	6.7	-1.3	3.9	2.9
Furniture, mattresses, and blinds	1.4	6.7	-6.7	-6.1	-8.9
Other manufacturing industries	-0.6	2.3	-1.9	-0.3	0.6

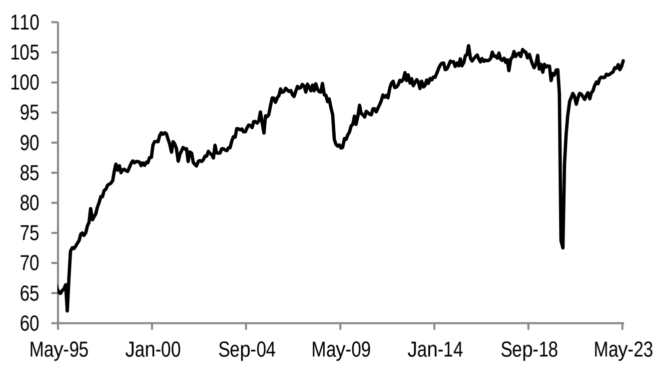
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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