

Industrial production – Gains continue, driven once again by construction

- **Industrial production (June): 3.7% y/y nsa; Banorte: 2.9%; consensus: 2.9% (range: 2.0% to 3.9%); previous: 3.9%**
- **In sequential terms, industry grew 0.6% m/m, surprising to the upside. Construction led the expansion for a second consecutive month at 2.2%. Moreover, manufacturing rose 0.2%, with mining stable at 0.0%**
- **The result was better than what the [2Q23 preliminary GDP](#) suggested. Despite of this, the headline figure for the quarter would stand at 3.7% y/y –translating to +0.9% q/q–, with a revision of +50bps**
- **Going forward, we believe the outlook for industry is somewhat mixed. While domestic conditions will likely remain favorable –benefiting construction–, challenges for external demand, including some stagnation in US industry and rising energy costs, could impact local manufacturing**

Industry surprises to the upside. Production increased 3.7% y/y (see [Chart 1](#)), surpassing market expectations and our forecast. Inside, construction led once again, at 12.6%, followed by mining at 2.8% and with manufacturing at 0.8%, noting a more challenging base effect for the latter ([Chart 2](#)). Performance with seasonally adjusted figures was quite similar at 3.6% y/y –with no notable calendar disruptions–, also higher than the 2.8% within [INEGI's Timely Indicator of Economic Activity](#). For details, see [Table 1](#).

Construction keeps driving dynamism in sequential terms. Industry rose 0.6% m/m ([Chart 3](#)), rather positive considering sizeable gains in the previous two months. This is relevant as some adverse base effects were in play, suggesting even more strength. In broad terms the outlook was somewhat challenging, with signs of weakness in external demand still present, although with more favorable conditions in local drivers. Nevertheless, the environment for prices was better at the margin, in our view supporting output in some key sectors.

Construction climbed 2.2%, quite positive considering the 7.2% expansion in the previous month. Inside, civil engineering was once again decisive, at +8.1%, with support from key infrastructure projects being reflected in the figures. As such, this component adds five months to the upside, with an accumulated gain of 53.5% in this period. On another positive note, edification climbed 0.9% –in our view helped by a moderation in prices, with PPI down sequentially for the first time in the year– and with related services at +2.0%.

Manufacturing had a mild rebound at 0.2%, quite modest in our view considering the -1.9% from May. Nevertheless, the result is somewhat consistent with mixed signals for the sector – with positive outcomes in some sentiment indicators while hard data from auto production and performance from abroad showing declines. As such, 12 of the 21 sectors grew. There were relevant increases in some textile categories (see [Table 2](#) for details), while big drivers such as the food industry (2.4%) and beverages and tobacco (3.8%) also posted significant expansions.

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However, transportation had one of the largest declines at -2.0% –consistent with early data from AMIA. Chemicals also posted a large contraction at -3.6%. Lastly, some important categories with a milder performance include electronics (+0.5%), electrical devices (+0.2%) and machinery and equipment (-0.2%).

Mining was stable at 0.0%. Volatility remained present in ‘related services’, up 6.3% and adding three months higher. Nevertheless, both the oil (-0.6%) and non-oil sectors (-1.2%) declined. On the former, CNH figures signaled a decline in crude output, while the latter may be impacted by reduced global demand as expectations in China and the Eurozone remain subdued.

Risks on the external front remain, with domestic conditions more favorable at the margin. We believe that in the remainder of the year, performance will continue to be determined by the some of the same factors that have been present since the start of 2023. The main element, in our opinion, comes from abroad, with a lower dynamism from global industrial activity, which, broadly speaking, can be separated into: (1) A relative stagnation in US manufacturing; (2) weakness in China and the Eurozone; and (3) fears regarding the materialization of a recession in some regions. Moreover, more monetary tightening in some advanced economies could prove to be an additional challenge. On more timely factors, we remain focused on commodities, not ruling out new upward pressures considering: (1) Saudi Arabia’s oil production cuts; (2) geopolitical decisions that have impacted international trade of food items (*e.g.* the end of the Black Sea deal regarding Ukraine’s grain exports); and (3) harsher weather conditions, including the effects from *El Niño*. Finally, locally we identify at least two factors that could limit industry’s dynamism, including the appreciation of the Mexican peso that has diminished some competitiveness from exports.

In this context, we anticipate weakness will likely be focused on manufacturing, while mining could be favored by higher prices, but with the possibility that these gains will be erased by the strength of the MXN. However, conditions suggest that construction will remain as the driver of industry, supported both by the effect of nearshoring –with the construction of industrial spaces– and by government infrastructure spending –especially for the *Tren Maya*.

Further ahead, we believe that the conditions for the sector have a positive bias. In this sense, we believe that some support would come from public-private investments such as the one recently announced between CFE and Mexico Pacific Limited company, with an investment of US\$13 billion that includes the construction of a gas pipeline and a liquefaction plant in Puerto Libertad, Sonora (within the *Plan Sonora*), with the capacity to export 15 million tons of natural gas per year in its first stage.

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

	nsa				sa	
	Jun-23	Jun-22	Jan-Jun'23	Jan-Jun'22	Jun-23	Jun-22
Industrial Production	3.7	3.7	2.6	3.1	3.6	3.7
Mining	2.8	1.9	2.5	0.7	2.6	1.7
Oil and gas	4.6	-1.9	2.9	-1.7	4.6	-1.9
Non-oil mining	-2.1	-0.6	-0.5	-0.1	-1.9	-0.4
Services related to mining	1.4	37.5	5.7	19.5	-0.3	34.9
Utilities	3.7	4.7	3.2	2.7	3.7	4.4
Electricity	4.5	5.9	4.0	3.2	4.4	5.5
Water and gas distribution	1.3	1.1	0.7	1.3	1.3	1.1
Construction	12.6	0.9	4.2	1.0	11.9	1.1
Edification	4.6	-4.3	0.3	-0.9	4.7	-3.6
Civil engineering	72.7	10.7	30.5	3.2	69.8	9.2
Specialized works for construction	-4.3	16.7	-0.4	7.4	-5.2	15.0
Manufacturing	0.8	5.2	2.0	4.7	0.7	5.5
Food industry	-2.0	3.2	-0.7	2.5	-2.2	3.3
Beverages and tobacco	-5.2	6.1	-2.4	7.6	-4.1	7.5
Textiles - Raw materials	-12.3	2.9	-12.9	7.7	-12.3	3.0
Textiles - Finished products ex clothing	3.2	-10.8	1.3	-5.4	3.6	-8.5
Textiles - Clothing	-7.2	16.3	-4.8	12.5	-8.5	16.1
Leather and substitutes	2.2	3.1	0.4	5.9	3.0	4.1
Woodworking	-11.8	-5.3	-9.5	1.4	-12.5	-4.4
Paper	-5.9	-0.1	-2.2	4.4	-5.2	0.7
Printing and related products	2.3	4.4	0.9	12.1	2.5	4.5
Oil- and carbon-related products	11.9	6.2	2.0	16.6	12.8	7.4
Chemicals	-8.3	4.7	-4.4	6.5	-8.3	5.5
Plastics and rubber	-3.7	5.8	-3.1	6.0	-4.0	5.5
Non-metallic mineral goods production	-1.6	0.4	0.5	3.0	-1.0	0.7
Basic metal industries	-5.0	3.3	-0.5	3.7	-4.9	3.7
Metal-based goods production	2.3	-0.1	1.6	0.9	3.3	0.2
Machinery and equipment	1.8	4.0	4.2	2.8	1.9	4.3
Computer, communications, electronic, and other hardware	5.3	15.7	6.3	10.6	5.2	15.1
Electric hardware	1.5	5.1	3.2	2.9	2.1	5.5
Transportation equipment	12.0	6.6	11.7	3.6	12.0	6.0
Furniture, mattresses, and blinds	-5.8	-5.0	-8.0	4.2	-5.8	-4.6
Other manufacturing industries	0.5	5.5	2.5	5.2	0.5	5.6

Source: INEGI

Chart 1: Industrial production
% y/y

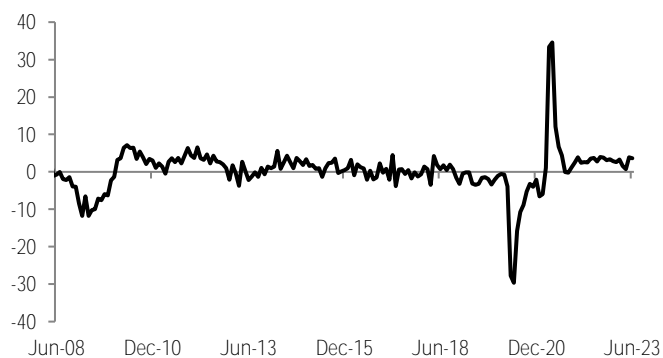


Chart 2: Industrial production by sector
% y/y

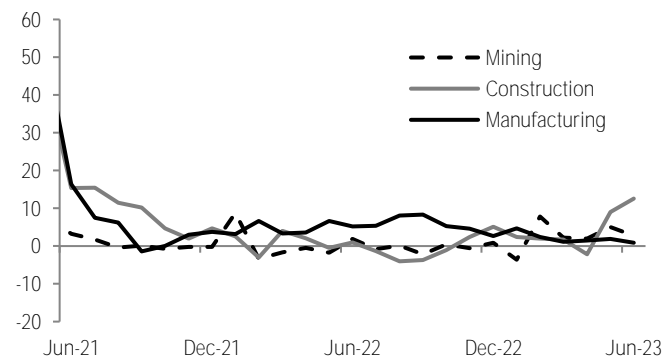
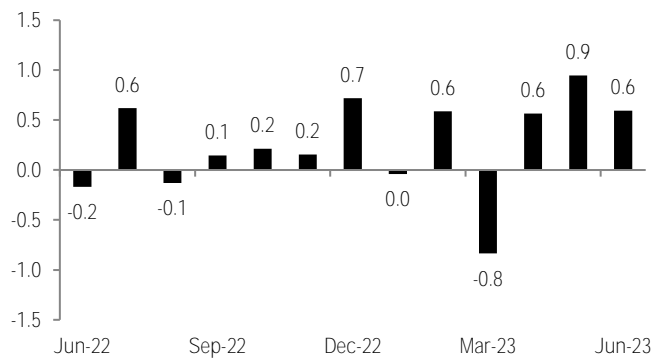


Table 2: Industrial production
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-23	May-23	Apr-23	Apr-Jun'23	Mar-May'23
Industrial Production	3.6	2.8	1.8	1.0	0.2
Mining	2.6	5.0	2.0	0.5	0.0
Oil and gas	4.6	5.3	3.6	2.1	2.2
Non-oil mining	-1.9	-0.4	0.0	-1.3	-0.8
Services related to mining	-0.3	15.8	-7.3	-4.0	-11.4
Utilities	3.7	1.5	1.1	0.6	0.8
Electricity	4.4	1.9	1.6	0.6	1.1
Water and gas distribution	1.3	0.5	0.0	0.4	0.1
Construction	11.9	8.2	-1.6	3.6	1.5
Edification	4.7	2.7	-5.8	0.7	0.5
Civil engineering	69.8	52.1	29.8	31.8	17.1
Specialized works for construction	-5.2	-5.3	-5.8	-3.4	-7.6
Manufacturing	0.7	0.3	3.2	0.6	0.0
Food industry	-2.2	-4.2	-0.7	-1.4	-1.1
Beverages and tobacco	-4.1	-9.0	-4.5	-5.9	-5.1
Textiles - Raw materials	-12.3	-16.3	-12.7	-3.0	-2.7
Textiles - Finished products ex clothing	3.6	2.1	11.9	4.6	2.9
Textiles - Clothing	-8.5	-12.5	-5.0	-5.7	-3.5
Leather and substitutes	3.0	-4.6	4.6	1.6	0.4
Woodworking	-12.5	-13.6	-7.0	-5.1	-6.5
Paper	-5.2	-4.6	-0.8	0.5	2.0
Printing and related products	2.5	4.1	-8.9	-1.9	-3.3
Oil- and carbon-related products	12.8	-4.9	0.8	-1.8	1.1
Chemicals	-8.3	-4.8	1.3	0.8	2.6
Plastics and rubber	-4.0	-5.4	-3.1	-1.0	-1.2
Non-metallic mineral goods production	-1.0	-0.9	-2.2	-3.7	-2.1
Basic metal industries	-4.9	-5.7	-0.8	-4.5	-4.8
Metal-based goods production	3.3	0.5	4.8	3.5	1.6
Machinery and equipment	1.9	1.3	4.4	2.2	-2.5
Computer, communications, electronic, and other hardware	5.2	6.1	3.7	3.0	-0.1
Electric hardware	2.1	0.0	1.7	-0.7	-0.3
Transportation equipment	12.0	15.0	16.2	5.9	3.7
Furniture, mattresses, and blinds	-5.8	-9.8	-7.6	-1.0	-5.9
Other manufacturing industries	0.5	0.5	-0.6	-0.3	-0.4

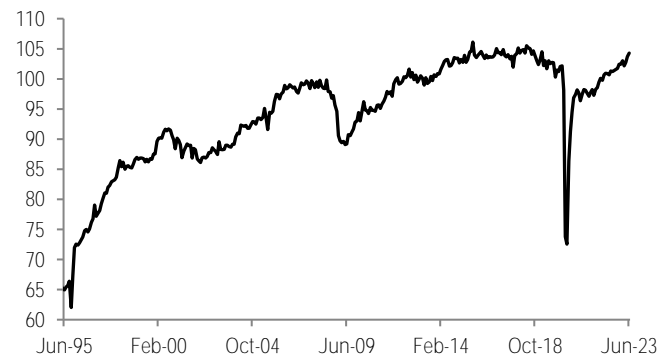
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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