Economic and Financial Markets Research
Economic Research, Mexico

September 11, 2023

Industrial production – Positive news continue, with construction leading the way

- **Industrial production (July): 4.8% y/y nsa; Banorte: 4.5%; consensus: 4.0% (range: 2.9% to 5.1%); previous: 4.9%**
- **In sequential terms, industry grew 0.5% m/m, adding a fifth straight month of increases. The boost came in once again from construction (2.0%), with manufacturing also better (0.3%). However, mining fell 2.6%**
- **We believe manufacturing performance continues to reflect some uncertainty on global economic activity. However, domestic dynamism seems stronger, supported by several positive factors**
- **We expect diverging trends to continue within industry. We see limitations for manufacturing due to lingering weakness in external demand and potential price pressures in commodities. On the other hand, we still expect more tailwinds for construction**

Industry maintains a healthy pace in annual terms. Production increased 4.8% y/y (see Chart 1), higher than consensus, but closer to our estimate (4.5%). Inside, performance was mixed. Construction maintained a double-digit increase at 25.6%, followed by manufacturing at 0.8%, with mining negative at -0.7% (Chart 2). Performance with seasonally adjusted figures was marginally higher, at 4.9% y/y. For details, see Table 1.

Sequentially, construction keeps driving performance. Industry rose 0.5% m/m (Chart 3), adding five months of increases, although with rates below 1% as diverging trends prevail. This behavior would be justified by at least four factors: (1) Lingering weakness in global manufacturing; (2) renewed pressures on energy prices; (3) a strong MXN impacting competitiveness in some sectors; and (4) higher financing costs for companies. However, we see some positive signs in specific categories, which would be recovering from disruptions and lagging demand due to the pandemic, in addition to a relevant boost from government spending.

Manufacturing rose 0.3%, positive considering the 0.6% expansion of the previous month. Some sentiment indicators continued with optimism. IMEF's PMI grew 2.3pts, reaching 53.2pts, with a significant increase in 'new orders'. Exports in the period were driven by the auto sector, consistent with the 2.6% expansion in transportation in this report. As such, 8 of the 21 sectors grew. Other increases –apart from autos– were focused on chemicals and 'others' (see Table 2 for details). Some of the big drivers were mixed, such as food (0.7%), electric equipment (1.6%), machinery and equipment (-0.6%) and electronic items (-0.3%).

Construction rose 2.0%, rather favorable considering large growth rates in the last two months, adding up to a 17.8% expansion so far in 2023. Similar to previous months, civil engineering led at 5.0% –with government spending behind much of the dynamism, particularly as efforts on completing key infrastructure projects gather momentum. Edification grew 0.8%, rebounding on a favorable base effect. Nevertheless, we believe price pressures are still limiting, especially in the residential sector. However, input prices are starting to moderate, possibly infusing some needed dynamism for this category.

Mining fell 2.6%. Oil contracted 1.2%, affected by an incident at PEMEX's *Nohoch-Alfa* platform early in the month. Non-oil had a more modest decline at -0.2%, not ruling out a moderation in output as perceived global demand kept diminishing. Nevertheless, additional stimulus in China along a recovery in prices could favor the sector in coming months. Finally, related services plummeted 14.9%, reaffirming their volatile behavior.


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We expect diverging industrial trends in the second half of the year, with challenging external factors, but with better domestic conditions. We believe the outlook for Mexican industry is relatively positive when compared to the global sector. As mentioned in previous reports, we believe industry will be an additional driver of GDP, although with lower growth rates towards the end of the year.

Construction and manufacturing will remain as the main supports. On the former, tailwinds will continue adding up in the short-term. Civil engineering will remain supported by government spending, most likely continuing in the coming year –based on programmed outlays of the *2024 Budget*. In addition, growth of industrial spaces will likely continue, with more announcements of investment projects from local and foreign companies which are looking to build-off on the nearshoring effect. On the residential sector, input prices have improved in the last couple of months, but we remain wary about the effect of high interest rates.

Turning to manufacturing, some signs of resilience remain. We believe the auto sector will continue as the main driver. According to the president of AMIA, José Zozaya, 2023 will end with production gains, a trend that has been fulfilled throughout the year. In addition, he indicated that they expect a normalization of inventories in 2024, but with slight downward adjustments in production as demand also stabilizes. Finally, domestic auto production is clearly recovering, but it is worth mentioning that there are still some technical stoppages that have impacted output. Between August and so far in September, 3 stoppages have been announced –by General Motors, Volkswagen, and Nissan. Moreover, risks about a possible strike in the US remain present, especially as a proposal by GM was discarded by the auto workers union on Friday. Other than autos, manufacturing in general will remain pegged to external demand. In this regard, some key drivers include: (1) Higher oil prices –with the announcement of production restrictions by Saudi Arabia and Russia; and (2) sluggishness in US manufacturing, with early PMI figures signaling more weakness, despite hard data in the previous month being somewhat more resilient at the margin.

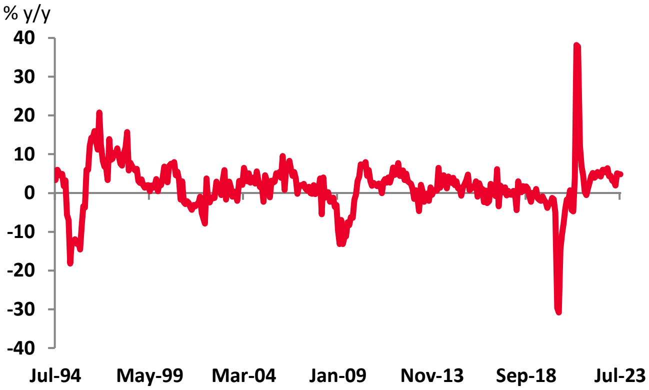
All in all, we believe domestic factors will compensate for the low dynamism abroad and will help maintain a positive trend in the second half. However, risks remain, as we do not rule out new disruptions that could put pressures on production processes via prices (*e.g.* transportation costs, raw materials) or via supply shortages (*e.g.* war in Ukraine or bans on trade with China).

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

	nsa				sa	
	Jul-23	Jul-22	Jan-Jul'23	Jan-Jul'22	Jul-23	jul-22
Industrial Production	**4.8**	**4.3**	**3.9**	**4.6**	**4.9**	**5.2**
Mining	**-0.7**	**3.7**	**2.6**	**4.3**	**-0.5**	**4.0**
Oil and gas	1.5	4.4	4.0	4.4	1.5	4.5
Non-oil mining	-2.9	3.1	-1.1	2.4	-2.6	3.4
Services related to mining	-10.9	1.2	5.1	11.7	-9.7	2.0
Utilities	**4.8**	**5.6**	**3.1**	**5.9**	**4.6**	**5.4**
Construction	**25.6**	**2.7**	**12.6**	**3.4**	**24.7**	**2.4**
Edification	6.4	1.2	2.3	2.5	6.0	1.0
Civil engineering	162.8	-1.4	90.2	2.1	159.6	-1.9
Specialized works for construction	6.7	15.5	0.2	9.4	5.7	14.9
Manufacturing	**0.8**	**4.6**	**2.0**	**4.8**	**1.1**	**6.2**
Food industry	-0.2	0.5	-1.3	2.3	-0.2	1.4
Beverages and tobacco	-9.0	5.8	-5.3	5.9	-9.5	8.2
Textiles - Raw materials	-15.5	0.9	-15.0	9.2	-15.3	2.9
Textiles - Finished products ex clothing	-1.2	-7.9	-0.4	-1.5	-0.1	-6.4
Textiles - Clothing	-11.8	1.8	-10.9	5.9	-10.9	3.4
Leather and substitutes	-0.8	5.1	1.5	10.3	0.0	6.6
Woodworking	-13.4	-0.5	-11.2	-2.2	-13.2	0.9
Paper	-8.1	0.1	-3.4	4.6	-7.9	1.4
Printing and related products	-1.3	2.4	-0.7	5.9	-1.8	3.2
Oil- and carbon-related products	0.4	26.3	2.0	18.2	1.1	27.1
Chemicals	-5.9	1.9	-1.4	6.5	-5.8	3.1
Plastics and rubber	-5.7	0.8	-3.2	3.2	-5.4	2.6
Non-metallic mineral goods production	-4.2	2.8	-1.6	1.0	-4.0	3.5
Basic metal industries	-2.4	2.0	-0.2	4.6	-2.2	2.1
Metal-based goods production	4.0	-3.3	2.5	-2.5	3.5	-2.4
Machinery and equipment	-0.8	6.2	4.5	9.1	1.5	7.7
Computer, communications, electronic, and other hardware	1.7	8.6	3.4	5.9	0.2	11.5
Electric hardware	1.4	-1.5	-0.7	3.7	1.7	0.0
Transportation equipment	10.9	9.9	11.6	5.8	11.5	13.3
Furniture, mattresses, and blinds	-7.4	-2.4	-8.2	3.6	-7.5	-1.3
Other manufacturing industries	3.4	1.1	1.7	1.1	2.9	1.6

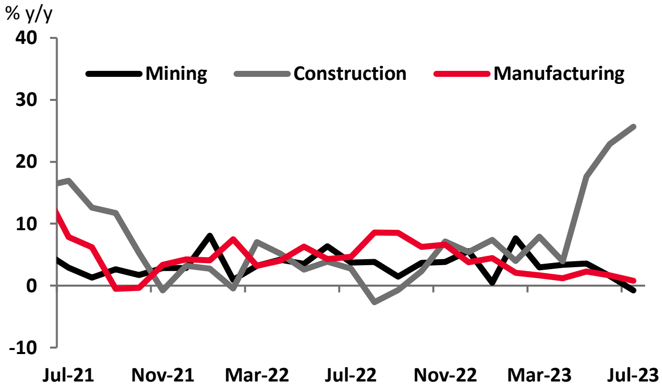
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



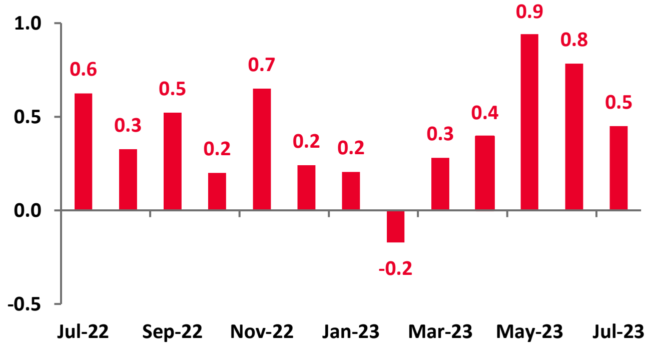
Source: INEGI

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

	% m/m			% 3m/3m	
	Jul-23	Jun-23	May-23	May-Jul'23	Apr-Jun'23
Industrial Production	**0.5**	**0.8**	**0.9**	**2.0**	**1.4**
Mining	**-2.6**	**-0.4**	**0.2**	**-1.2**	**-0.1**
Oil and gas	-1.2	-0.3	-0.4	0.1	1.4
Non-oil mining	-0.2	-1.1	-0.7	-1.5	-0.9
Services related to mining	-14.9	-0.3	2.4	-8.8	-7.1
Utilities	**3.5**	**-2.0**	**2.4**	**0.9**	**-0.9**
Construction	**2.0**	**3.3**	**7.1**	**11.3**	**7.8**
Edification	0.8	-0.5	4.1	3.8	2.0
Civil engineering	5.0	14.1	17.3	46.4	45.0
Specialized works for construction	3.2	3.2	8.8	6.0	-2.0
Manufacturing	**0.3**	**0.6**	**-0.9**	**0.3**	**0.3**
Food industry	0.7	2.0	-2.0	-0.1	-0.2
Beverages and tobacco	-0.2	1.6	-2.1	-2.6	-3.5
Textiles - Raw materials	-1.4	-0.1	-2.2	-1.7	-0.3
Textiles - Finished products ex clothing	-1.3	0.3	-2.4	0.0	1.2
Textiles - Clothing	-1.0	0.7	0.3	0.5	-1.1
Leather and substitutes	-1.4	5.4	-7.4	-1.6	0.5
Woodworking	1.3	6.8	-9.7	-5.9	-5.1
Paper	-0.4	-2.4	-3.0	-3.9	-1.2
Printing and related products	-0.4	-1.1	8.7	4.1	0.5
Oil- and carbon-related products	-0.4	6.8	-8.5	0.5	2.2
Chemicals	2.3	-3.0	-6.5	-7.6	-5.4
Plastics and rubber	-1.4	0.1	-1.1	-0.8	0.0
Non-metallic mineral goods production	-0.5	0.4	0.1	-0.5	-2.1
Basic metal industries	0.2	-0.3	-1.2	-3.3	-4.4
Metal-based goods production	-1.1	1.0	0.2	3.4	4.6
Machinery and equipment	-0.6	1.7	-3.3	-1.4	-1.2
Computer, communications, electronic, and other hardware	-0.3	2.3	0.4	2.2	0.7
Electric hardware	1.6	-1.0	0.7	-0.5	-1.9
Transportation equipment	2.6	-1.6	1.8	4.8	5.7
Furniture, mattresses, and blinds	0.0	-4.2	5.2	2.3	1.2
Other manufacturing industries	2.8	-0.3	-0.5	1.1	-0.3

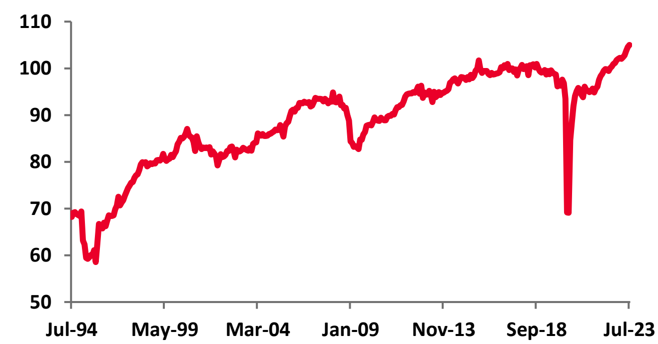
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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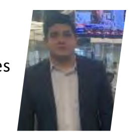

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