October 12, 2023

Industrial production – Positive trend continues, with construction in the spotlight

- **Industrial production (August): 5.2% y/y nsa; Banorte: 4.9%; consensus: 4.5% (range: 3.1% to 5.4%); previous: 4.8%**
- **Sequentially, the industry rose 0.3% m/m, a positive result considering the gains of the last five months. Inside, growth comes from construction (2.4%) and mining (1.6%) with a positive base effect. Manufacturing decreases 0.7%**
- **We believe that the domestic demand performance continues to support the industry. On the contrary, manufacturing is limited due to the low dynamism of external activity and the pressures input prices**
- **We anticipate a more challenging outlook for industry, with shocks coming mainly from abroad. Furthermore, we believe that construction still has room for expansion, so we do not rule out that will be the main driver of the sector in the coming months**

Industry continues its expansion in annual terms. Production increased 5.2% y/y (see Chart 1), higher than consensus and to our estimate (4.9%). Inside, growth was generalized. Construction added its fourth month with double-digit rates at 30.8%, followed by mining at 1.4% and with marginal drop in manufacturing (-0.6%) (Chart 2). With seasonally adjusted figures, the result was slightly lower, at 5.0% y/y. For details, see Table 1.

Sequentially, industry continues to moderate. The sector grew 0.3% m/m (Chart 3), which implies an expansion of 3.3% so far this year and six consecutive months of positive rates. In detail, industry continues to moderate. This can be partially explained by a more challenging base effect, but we recognize some headwinds that persist or are materializing, among the most relevant are: (1) Higher pressures on energy and other commodities prices; (2) uncertainty about global activity, with fears of further economic weakness in China; and (3) high interest rates for longer-than-expected. On the contrary, we do not rule out that other factors may limit the negative impact of the above. Inside, we continue to see government investment as a relevant support, while abroad, caution regarding US manufacturing prevails.

Manufacturing fell 0.7%, an expected setback given the two previous months gains. Despite the decrease, the context seems to be more mixed. The IMEF's manufacturing PMI continue to show positive signals, growing 1.0pt to stand at 52.2pts, highlighting the increase in 'new orders' and 'deliveries'. Meanwhile, non-oil exports decreased 0.9%, with autos being the main curb. As such, 12 of the 21 sectors fell, highlighting textiles excluding clothing (-5.4%) and transportation (-4.3%). Regarding the big drivers the performance was mixed, with the food industry falling 0.2% and machinery and equipment rising 0.6% (for details see Table 2).

Construction grew 2.4%, accelerating its pace in the margin, despite a more challenging base and with an average growth of 2.5% m/m so far in 2023. The behavior inside remains without bigger changes vs July, with the category of civil engineering as the main driver, increasing 11.8%. Specialized works follows (-3.2%), while edification had a setback of -1.7%, enough to eliminate the progress of the last month.

Mining rose 1.6%, partially recovering from the previous month's disruption (-2.6%). In this regard, oil sector grew 1.3%, in line with CNH figures that indicate an increase in both gas and crude oil extraction. While related services show a rebound (7.6%) after the previous fall (-14.8%), remembering that volatility continues to be a constant in this item.


Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com


Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com


Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com


Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

More relevant, the non-oil sector fell 0.1%, explained by lower prices and low demand from China.

The risks for industry continue to increase, although we do not rule out resilience in some categories. Today's results contribute to the positive, although limited, industry trend in the short-term. Focused on this, we recognize that uncertainty on the US economy performance and other external factors may affect the expansion of the sector towards the end of the year. Despite the above, we also find elements that can guarantee the industry dynamism, especially on the domestic front, where internal demand continues to be positive.

In this context, in the following months we anticipate that the industry growth will continue, although marginally. As such, we believe that construction will be the main driver, in a scenario where investment, both public and private, has continued to grow. We will be looking to the evolution of manufacturing, this being the weakest item for now. On timely data, sentiment indicators are mixed with a positive bias. In the US, there are signs of resilience in September with increases at the *S&P Global* Manufacturing PMI (49.8pts from 47.9pts) and in the *Empire Manufacturing*, but with a downward adjustment in Mexico according to the *IMEF*'s manufacturing PMI (51.5pts from 52.2pts). Some of the factors that may impact manufacturing are: (1) The evolution of new geopolitical tensions and their repercussions on oil prices and on monetary policy decisions of advanced economies towards the end of the year; (2) inflation trajectory, highly linked to the first point; and (3) lower demand from China. Finally, regarding mining, we do not rule out that the volatility in oil prices and base metals (*e.g.* copper, steel) will impact without the net effect being clear yet.

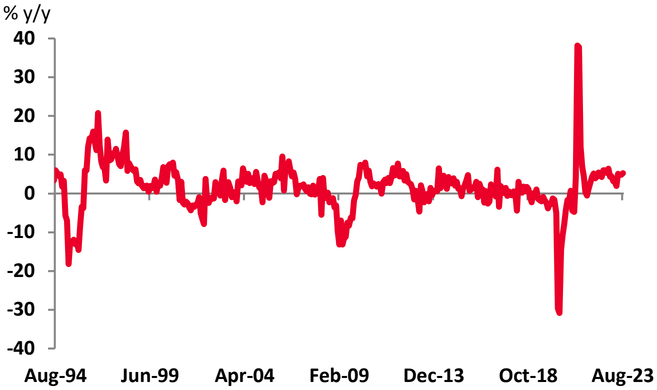
In the medium- and long-term, industry will continue to be driven by the nearshoring effect, with new investments that tend to focus on the north and center of the country. On the matter, the federal government continues to expand its pro-investment policies, with the additional objective that new capital finds other country regions attractive. In this sense, in June a decree that encourages investment in development poles of the Istmo of Tehuantepec was announced –measures such as the 100% income tax exemption with the condition of fulfilling a certain number of created jobs. Likewise, yesterday, a new set of policies were issued, which aims to offer tax incentives to companies that established in any part of Mexico, produce and export goods from the 10 key sectors for nearshoring –which include: semiconductors, gasoline and internal combustion engines, electrical and electronic equipment, agrochemicals, pharmaceutical industry, among others– and that their export income from said goods represents at least 50% of their total revenues. The stimulus includes an accelerated deduction of investment in fixed assets (between 56% and 89% depending on the item). In a press release, the National Confederation of Industrial Chambers (Concamin, for its Spanish acronym) addressed that "…with this legal instrument, companies will be better positioned to increase their productivity and international competitiveness."

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

	nsa				sa	
	Aug-23	Aug-22	Jan-Aug'23	Jan-Aug'22	Aug-23	Aug-22
Industrial Production	**5.2**	**6.0**	**4.1**	**4.7**	**5.0**	**4.9**
Mining	**1.4**	**3.8**	**2.4**	**4.2**	**1.5**	**4.2**
Oil and gas	3.2	5.3	3.9	4.5	3.2	5.4
Non-oil mining	-2.9	3.4	-1.3	2.5	-2.8	3.6
Services related to mining	1.8	-5.9	4.8	9.3	2.5	-4.3
Utilities	**8.9**	**8.2**	**3.9**	**6.2**	**8.9**	**8.1**
Construction	**30.8**	**-2.7**	**14.9**	**2.6**	**30.1**	**-3.2**
Edification	3.7	-5.4	2.5	1.4	4.6	-5.1
Civil engineering	195.1	5.9	104.8	2.6	188.7	3.8
Specialized works for construction	15.2	5.8	1.9	8.9	14.1	6.0
Manufacturing	**-0.6**	**8.6**	**1.7**	**5.3**	**-0.7**	**7.1**
Food industry	0.0	2.3	-1.1	2.3	-0.1	0.9
Beverages and tobacco	-8.0	6.3	-5.7	6.0	-8.2	4.1
Textiles - Raw materials	-11.2	-0.4	-14.5	7.9	-11.5	-2.3
Textiles - Finished products ex clothing	-4.1	-4.3	-0.9	-1.9	-3.8	-5.7
Textiles - Clothing	-7.6	6.1	-10.5	5.9	-7.9	4.0
Leather and substitutes	-4.3	12.8	0.7	10.7	-4.9	10.0
Woodworking	-6.3	-10.6	-10.6	-3.3	-6.0	-11.6
Paper	-7.3	3.7	-3.9	4.4	-7.5	1.8
Printing and related products	1.1	2.1	-0.5	5.4	1.7	1.2
Oil- and carbon-related products	-0.3	17.9	1.7	18.2	0.0	18.4
Chemicals	-3.6	2.8	-1.6	6.0	-3.1	1.7
Plastics and rubber	-5.0	1.7	-3.4	3.0	-4.9	0.1
Non-metallic mineral goods production	-3.6	0.9	-1.8	1.0	-3.8	0.8
Basic metal industries	6.8	0.6	0.6	4.1	6.9	0.8
Metal-based goods production	8.5	0.3	3.3	-2.2	9.1	-2.5
Machinery and equipment	1.1	9.3	4.0	9.1	1.0	6.9
Computer, communications, electronic, and other hardware	-1.9	11.3	2.6	6.6	-2.0	8.4
Electric hardware	1.2	1.6	-0.4	3.4	1.3	1.6
Transportation equipment	1.0	24.9	10.1	8.1	0.0	21.6
Furniture, mattresses, and blinds	-10.1	-2.6	-8.5	2.8	-9.7	-3.7
Other manufacturing industries	1.3	-0.6	1.7	0.9	1.6	-1.4

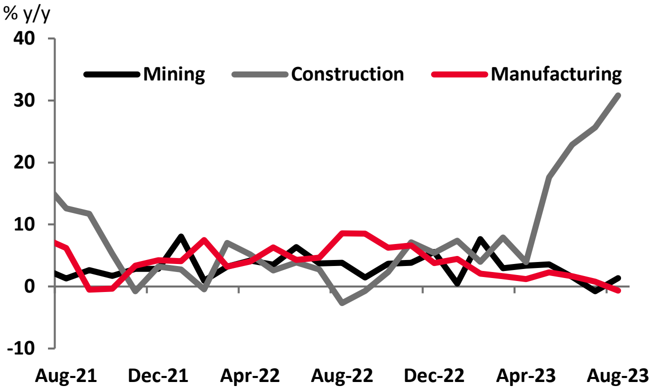
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



Source: INEGI

Table 2: Industrial production

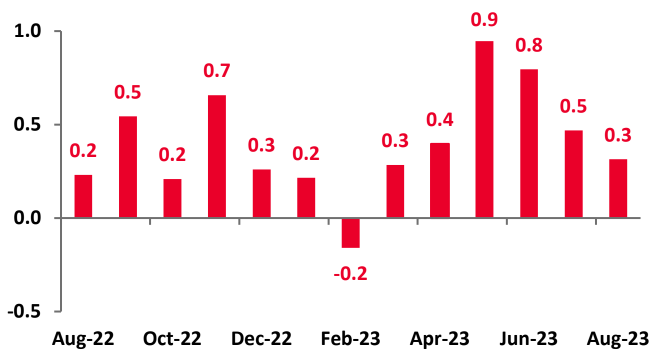
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-23	Jul-23	Jun-23	Jun-Aug'23	May-Jul'23
Industrial Production	**0.3**	**0.5**	**0.8**	**2.0**	**2.0**
Mining	**1.6**	**-2.6**	**-0.4**	**-1.2**	**-1.1**
Oil and gas	1.3	-1.2	-0.3	-0.4	0.1
Non-oil mining	-0.1	-0.3	-1.2	-1.6	-1.6
Services related to mining	7.6	-14.8	-0.1	-6.8	-8.3
Utilities	**2.6**	**4.5**	**-2.2**	**2.6**	**1.3**
Construction	**2.4**	**2.2**	**3.5**	**10.7**	**11.8**
Edification	-1.7	0.7	-0.6	1.1	3.6
Civil engineering	11.8	6.1	15.1	44.9	49.7
Specialized works for construction	3.2	3.4	3.5	9.8	6.8
Manufacturing	**-0.7**	**0.2**	**0.5**	**0.2**	**0.1**
Food industry	-0.2	0.8	2.0	1.5	0.0
Beverages and tobacco	-0.8	-0.3	1.3	-0.2	-2.7
Textiles - Raw materials	1.5	-1.4	-0.1	-1.4	-1.6
Textiles - Finished products ex clothing	-5.4	-2.1	0.1	-3.1	-0.7
Textiles - Clothing	3.2	-1.0	0.9	1.8	1.0
Leather and substitutes	-1.5	-1.6	5.4	0.1	-1.8
Woodworking	-3.3	1.2	6.8	-1.5	-6.1
Paper	0.1	-0.4	-2.4	-3.9	-3.9
Printing and related products	0.2	-0.4	-1.1	2.6	4.1
Oil- and carbon-related products	-0.2	-0.6	6.9	1.8	0.6
Chemicals	1.2	2.4	-2.9	-5.7	-7.5
Plastics and rubber	-0.2	-1.4	0.0	-1.3	-0.9
Non-metallic mineral goods production	-0.8	-0.7	0.2	-0.9	-0.8
Basic metal industries	3.0	0.3	-0.2	-0.4	-3.1
Metal-based goods production	2.7	-0.9	1.1	3.7	3.7
Machinery and equipment	0.6	-0.6	1.7	-0.1	-1.5
Computer, communications, electronic, and other hardware	-1.8	-0.5	2.1	1.3	1.7
Electric hardware	0.4	1.7	-0.9	0.5	-0.4
Transportation equipment	-4.3	2.3	-1.9	0.8	4.1
Furniture, mattresses, and blinds	-2.4	-0.2	-4.5	-2.3	1.9
Other manufacturing industries	-2.4	2.8	-0.3	1.3	1.0

Source: INEGI

Chart 3: Industrial production

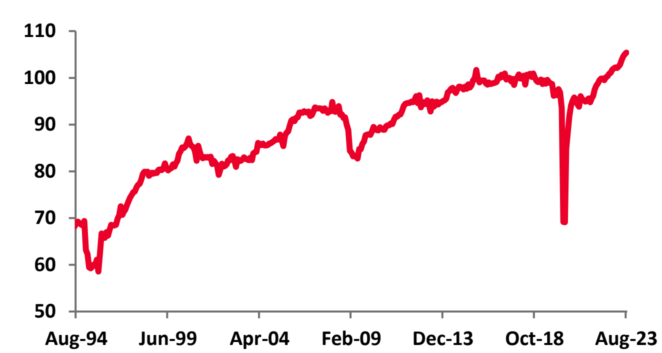
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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Directory

Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000

Luis Leopoldo López Salinas
Economist, Global Internacional
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com
(55) 5268 - 1671

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

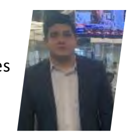
José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com (55) 1670 - 2250

Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144



Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Quantitative Analysis

Alejandro Cervantes Llamas Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000