Economic and Financial Markets Research
Economic Research, Mexico

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Industrial production – Manufacturing picks up some slack, but some concerns remain ahead

- **Industrial production (September): 3.9% y/y nsa; Banorte: 3.8%; consensus: 4.3% (range: 3.4% to 7.1%); previous: 4.7%**
- **Sequentially, industry rose 0.2% m/m, adding seven months of improvements. The boost came in from manufacturing (1.7%) –with 15 of the 21 categories inside higher–, albeit with declines in mining (-1.0%) and in construction (-4.1%), with a challenging base for both**
- **Although domestic conditions remain mostly favorable –exemplified mainly the recent trend in construction and by some categories related to this in manufacturing–, sectors with a larger exposure to external conditions could show more weakness if the outlook worsens**
- **We believe industry will decelerate in the short-term, with manufacturing dragged by the auto sector strike in the US. Nevertheless, we think that construction will remain as a relevant driver at least until 1H24**

Growth in industry moderates in annual terms, with some surprises in sector dynamics. Production increased 3.9% y/y (see Chart 1), lower than consensus (4.3%) but closer to our estimate (3.8%). Inside, construction led the increase once again at 18.6% –adding five months with double-digit expansions–, with mining also in positive territory at 0.5%. Manufacturing rebounded from negative territory to 0.8% (Chart 2). With seasonally adjusted figures, the result was higher at 4.5% y/y. For details, see Table 1.

Manufacturing rebounds while construction ends its hot streak. Industry grew 0.2% m/m (Chart 3), which implies seven consecutive months in expansion and with improvements in 13 of the last 15 months. The result as a whole is favorable, especially considering some external headwinds, such as: (1) Uncertainty about global activity, particularly considering prevailing monetary conditions; and (2) doubts over the future path of energy and commodity prices. Nevertheless, we note some surprises in the performance of some sectors, especially as domestic conditions remain strong. While some of the dynamics could be attributed to more challenging base effects, we believe additional attention will be warranted to see if some of these moves prevail in coming months.

Manufacturing grew 1.7%, better than expected. Timely indicators suggested a modest setback, which we initially attributed to some of the early spillover effects from the auto workers strike in the US. However, an as seen in the sector-by-sector performance, this was not the case. In this sense, 15 of the 21 categories posted improvements, noting transportation equipment at +6.6%. In particular, we thought that these could have taken a hit as auto parts demand declined as a result of the stoppages in downstream plants in the US. As such, considering this expansion along further shocks in October, it is very likely that the sector will decline in the next month. Turning to other positive branches, we note increases in beverages and tobacco (+5.7%), textiles ex. clothing (+4.4%), and metallic products (+2.7%). Among the sectors to the downside, the main highlight is the contraction in oil and carbon related products (-6.8%). For further details see Table 2.

Mining fell 1.0%, responding in part to a somewhat challenging base. The oil component backtracked 0.7% –despite relatively positive figures for oil and gas output. Meanwhile, non-oil production also declined 0.7%, likely impacted by lower benchmark prices and contrasting with encouraging trade balance figures. Finally, 'related services' maintained a volatile performance at -3.5% (previous: 7.1%).


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Construction contracted 4.1%, a sizeable decline even when considering outsized gains in the previous four months. However, taking into account available information and prevailing trends, we believe the sector could make a relevant comeback as soon as next month. Dynamics in the sector remain dominated civil engineering, although this time to the downside at -24.8%, with a decline also in specialized works (-4.0%). On the contrary, edification rebounded 3.2%, likely finding support from industrial works as demand for these type of spaces remains strong.

The short-term outlook for industry looks challenging, although the trend going forward is likely to remain favorable. Despite not having an impact on today's figures, we believe that the auto strike in the US will be the main diver of manufacturing performance in October and possibly part of November. We consider that the effects could concentrate in the auto parts sector, at least taking into account AMIA and other companies' figures for the tenth month of the year. Specifically, both production (+2.3% m/m) and exports (+2.1%) of light vehicles grew sequentially. Nevertheless, and as we followed up in mid-October, the *Industria Nacional de Autopartes* (INA) has talked about specific monetary shocks. According to this association, after the seven-week stoppage, auto parts order losses totaled US$785 million –with Ford being the most affected company with US$434 million. In terms of data releases, the impacts will first be seen in the trade balance –anticipating a reduction in both auto exports and some intermediate goods imports– and then be reflected in the industrial production report. If we add this to other challenges for manufacturing that we have elaborated on in previous publications (*e.g.* uncertainty about global economic activity –with weakness in the Eurozone and a lack of dynamism in China–, doubts about the extension of the monetary tightening cycle in advanced economies, geopolitical tensions, etc.), the outlook is complicated.

However, we believe that the headline figures will continue to find significant support in construction. According to the latest figures from the MoF, the percentage of progress in terms of physical investment spending vs. budget is around 59.5% (as of September). Although we recognize that these figures have a bias relative to the timing of the materialization of the work due to accounting practices, we think that they at least suggest that dynamism will remain close to current levels. Furthermore, considering the amounts contemplated for the completion of different projects in the 2024 Budget Proposal, we believe that the favorable trend will extend at least into 1H24. On the private side, companies' interest in relocating will likely continue, with a possible additional boost from the recent announcement of new tax incentives that, according to the Deputy Finance Minister, Gabriel Yorio, could detonate an additional US$18.5 billion in investments in 2024.

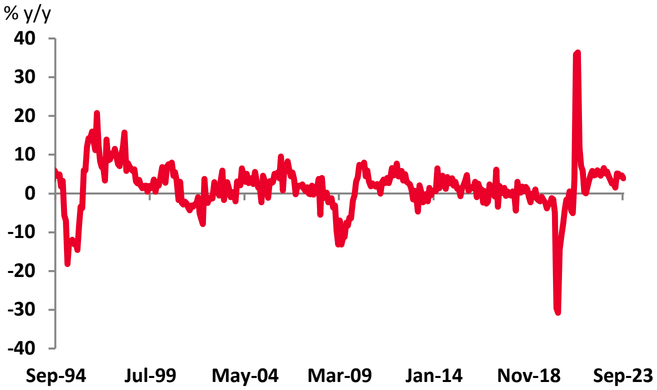
Taking this into account, we think the sector will remain one of the drivers of growth in the remainder of 2023 and the first half of next year, contributing to our 2024 GDP estimate of 2.4%. However, risks in 2H24 are higher, expecting sequential declines not only in the sector but in total activity.

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

	nsa				sa	
	Sep-23	Sep-22	Jan-Sep'23	Jan-Sep'22	Sep-23	Sep-22
Industrial Production	**3.9**	**6.6**	**3.7**	**5.3**	**4.5**	**7.0**
Mining	**0.5**	**2.3**	**2.3**	**4.6**	**0.8**	**2.6**
Oil and gas	2.8	2.1	3.7	3.9	2.9	2.4
Non-oil mining	-3.7	4.2	-1.3	5.1	-3.8	4.1
Services related to mining	-2.5	-4.0	4.5	8.7	-0.3	-2.0
Utilities	**7.0**	**1.8**	**3.3**	**0.2**	**7.2**	**2.2**
Construction	**18.6**	**-2.2**	**13.7**	**3.0**	**19.5**	**-1.4**
Edification	12.1	-5.3	3.3	1.1	11.9	-4.9
Civil engineering	62.4	3.1	80.3	9.4	68.7	7.5
Specialized works for construction	2.0	10.2	2.0	7.8	3.2	11.6
Manufacturing	**0.8**	**10.2**	**1.5**	**6.4**	**1.2**	**10.0**
Food industry	-2.8	8.5	-1.1	3.1	-2.8	7.8
Beverages and tobacco	-2.4	4.6	-4.0	7.1	-2.6	4.7
Textiles - Raw materials	-3.4	-7.5	-10.4	5.7	-2.1	-7.9
Textiles - Finished products ex clothing	0.1	-7.0	-1.7	-4.8	-0.5	-7.3
Textiles - Clothing	-7.1	3.7	-10.9	8.1	-7.1	2.5
Leather and substitutes	-2.9	4.9	-0.4	8.8	-2.5	5.8
Woodworking	-4.9	-15.1	-11.4	-1.3	-4.0	-16.3
Paper	-6.8	1.9	-4.5	4.6	-6.7	2.0
Printing and related products	-2.8	8.0	-0.2	11.9	-1.1	8.6
Oil- and carbon-related products	-4.6	3.2	1.0	16.4	-3.3	4.2
Chemicals	-1.7	-3.6	-3.7	2.6	-0.9	-3.9
Plastics and rubber	-7.2	8.8	-2.6	6.2	-5.6	8.9
Non-metallic mineral goods production	-3.7	1.9	-1.7	2.1	-3.6	2.1
Basic metal industries	3.7	0.8	1.1	3.4	3.5	0.7
Metal-based goods production	10.8	8.6	4.1	7.7	10.3	8.2
Machinery and equipment	1.1	2.1	1.7	6.1	2.8	2.2
Computer, communications, electronic, and other hardware	-1.4	25.8	1.2	12.0	-0.6	28.4
Electric hardware	-0.9	3.4	0.8	4.3	0.7	4.4
Transportation equipment	8.8	25.6	10.1	9.0	9.7	25.3
Furniture, mattresses, and blinds	-12.4	-5.3	-9.5	1.8	-10.8	-5.2
Other manufacturing industries	2.0	5.8	2.8	4.3	3.2	6.1

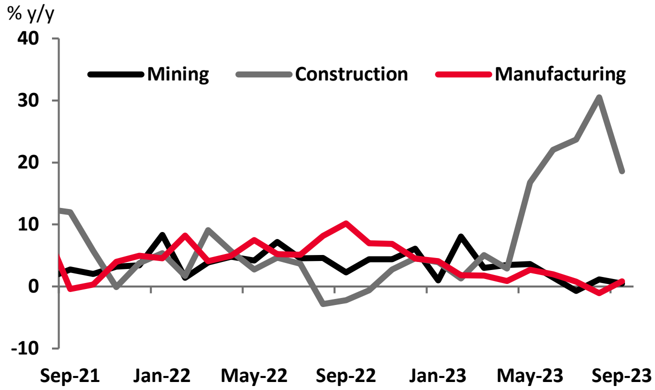
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



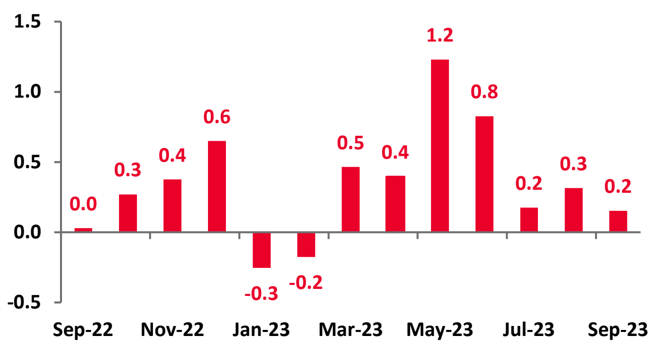
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-23	Aug-23	Jul-23	Jul-Sep'23	Jun-Aug'23
Industrial Production	**0.2**	**0.3**	**0.2**	**1.4**	**2.0**
Mining	**-1.0**	**1.4**	**-2.5**	**-2.2**	**-1.3**
Oil and gas	-0.7	1.2	-1.2	-1.0	-0.5
Non-oil mining	-0.7	-0.6	0.1	-1.5	-1.5
Services related to mining	-3.5	7.1	-15.0	-11.6	-7.6
Utilities	**-0.2**	**2.1**	**0.5**	**3.6**	**3.2**
Construction	**-4.1**	**2.4**	**1.4**	**6.1**	**9.9**
Edification	3.2	-1.2	1.1	2.9	2.4
Civil engineering	-24.8	18.3	0.5	15.3	35.7
Specialized works for construction	-4.0	2.3	1.6	6.9	8.2
Manufacturing	**1.7**	**-0.7**	**0.2**	**0.5**	**0.5**
Food industry	0.8	-0.2	0.7	1.5	1.4
Beverages and tobacco	5.7	-1.9	-0.9	-0.6	-1.9
Textiles - Raw materials	3.9	1.0	-1.5	3.4	1.1
Textiles - Finished products ex clothing	4.4	-6.3	0.2	-4.1	-2.5
Textiles - Clothing	0.3	3.1	-1.4	2.3	2.2
Leather and substitutes	0.4	-1.6	-1.5	-1.4	0.4
Woodworking	0.8	-0.3	0.0	1.1	0.2
Paper	-0.2	1.0	-0.7	-2.6	-3.7
Printing and related products	-0.7	0.2	0.0	0.5	1.4
Oil- and carbon-related products	-6.8	-0.4	-0.5	-1.9	1.3
Chemicals	0.6	0.8	0.6	-0.3	-2.1
Plastics and rubber	0.0	-0.6	-2.3	-2.4	-0.9
Non-metallic mineral goods production	1.2	-2.1	0.0	-0.5	-0.4
Basic metal industries	1.2	2.7	1.3	2.8	-0.4
Metal-based goods production	2.7	2.8	1.0	5.3	4.4
Machinery and equipment	2.2	0.7	-2.4	-0.8	-0.3
Computer, communications, electronic, and other hardware	0.2	-1.3	-0.2	-0.7	0.0
Electric hardware	-0.2	-0.6	2.1	0.9	-0.3
Transportation equipment	6.6	-4.1	1.9	1.4	2.1
Furniture, mattresses, and blinds	-1.1	-1.7	-0.9	-2.2	-1.4
Other manufacturing industries	2.9	-2.5	2.0	0.7	-0.7

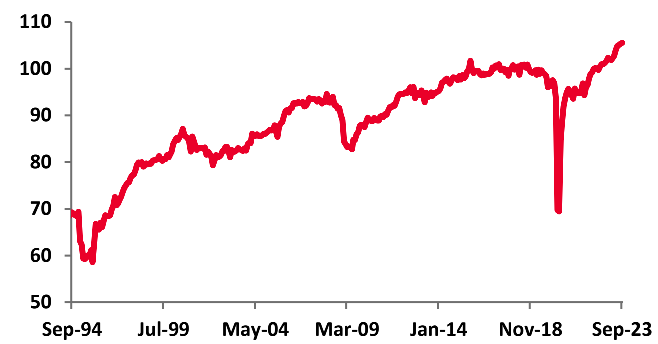
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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