

## Industrial production – Closing the year below expectations

February 11, 2020

www.banorte.com  
@ analisis\_fundam

Juan Carlos Alderete, CFA  
Director of Economic Research  
juan.alderete.mactal@banorte.com

Francisco Flores  
Senior Economist, Mexico  
francisco.flores.serrano@banorte.com

- **Industrial production (December): -1.0% y/y; Banorte: 0.1%; consensus: -0.5% (range: -2.2% to 0.4%); previous: -2.3%**
- **With these figures, industrial activity in 4Q19 stood at -2.1% y/y, lower than the preliminary GDP print. For full-year 2019, the sector contracted 1.8%**
- **Mining was positive for a second month in a row at 0.4% y/y, staying somewhat supported by oil and gas**
- **In seasonally-adjusted terms, activity declined 0.3% m/m after the +0.8% observed in November, with construction holding relatively well at the margin (0.6%)**
- **On the other hand, we remain cautious on manufacturing despite advancing 0.5% m/m, which we see as modest given recent shocks to the auto sector**
- **In our view, today's lower-than-expected performance and some recent negative global developments –such as the “Coronavirus” in China– suggest that industrial activity is likely to stay challenged in 1Q20**

**Industrial activity contracted 1.0% y/y in December.** This was lower than consensus (-0.5%) and our estimate of +0.1%. With this, industry contracted 2.1% in 4Q19, lower than the -1.8% published with the release of the preliminary GDP. As a result, industrial activity also shrank -1.8% in full-year 2019, weakest since the Financial Crisis (2009: -7.5%). On a more favorable note, mining added two consecutive months up, at 0.4% ([Table 1](#)). As was the case in November, this was somewhat supported by oil (0.4%) as suggested by higher crude-oil and gas production by Pemex. Moreover, services to the sector were up 1.8%, while non-oil fell modestly (-0.1%). Construction was lower than in November (-4.9%) while manufacturing stood at -0.5%, both below our expectations ([Chart 2](#)). It should be said that this period had both a more favorable base-effect and one additional working day in the annual comparison.

**Industry fell in monthly terms, despite some resiliency in construction.** Using seasonally adjusted figures, industry contracted 0.3% m/m, which could be some payback considering that November was up by 0.8% ([Chart 3](#)). Among sectors, mining was the only one lower at -0.9%, almost wiping out the 1.2% gain of the previous month and with the index remaining quite low despite clearer signs of stabilization since last August. On the other hand, we note that construction stayed positive at 0.6%, which is good news considering its persistent weakness throughout the year. We believe this was likely driven by higher business confidence and some evidence of an acceleration in spending by the Federal Government. The latter likely helped civil engineering (2.0%), which had been underperforming edification (0.4%) persistently in the previous four months.

Document for distribution among public

Manufacturing recovered at a modest pace (0.5%), with 10 out of 21 subcomponents falling ([Table 2](#)). The sector has not been able to fully-recover the -2.5% observed in October, which was influenced by shocks to autos. In this respect, transportation equipment surprised us to the downside as it contracted 1.9%. As we observed in our analysis in the previous month's report, other important industries still show muted dynamism, including food (-1.2%), beverages (0.7%), and raw materials for textiles (-3.2%). More favorable though, machinery and equipment (5.1%), along computers and electronic devices (3.5%) –which can be categorized as durable goods– rebounded.

**Construction may be improving, but manufacturing looks challenged.**

Today's report was below our expectations, failing to provide a more positive signal going into 2020. Specifically, we maintain our cautiousness on manufacturing, with the sector unable to gather more speed after recent shocks to autos that should have faded away by now, while the sequential performance by industry type is mixed at best. Regarding the automotive sector, we add that production in January 2020 fell 4.0% y/y and weakness has lingered around since the second half of last year. Meanwhile, we do not rule out some impact to Mexico's aerospace industry from *Boeing* halting production of its *737 Max* in the US. Nevertheless, we do not have detailed information about the potential effect to suppliers established in our country. Moreover, the possible adverse effect of "Coronavirus" on global supply chains could be another headwind to the sector. On the contrary, the US ISM manufacturing index bounced back to expansion in January (50.9pts from 47.8pts in the previous month) while IMEF's manufacturing PMI also improved at the margin, including both the production and new orders subcomponents. Broadly speaking, we think results suggest modest momentum, even after lower uncertainty following advances in terms of trade tensions, including the agreement on changes to USMCA.

On the other hand, the improvement in all sectors within construction is more favorable, highlighting civil engineering as it showed its second highest sequential advance in 2019. We also acknowledge recent efforts by the Federal Administration to kick-start infrastructure projects, including the first phase of the government's Infrastructure Plan, with the private sector waiting for details about investment plans in energy –which according to news reports, should be unveiled this month–. Nevertheless, caution is still granted as business confidence reversed December's gains, including in the 'adequate moment to invest' component. Finally, we continue expecting a more positive performance in mining, supported by the oil sector, with January likely rebounding strongly in annual terms.

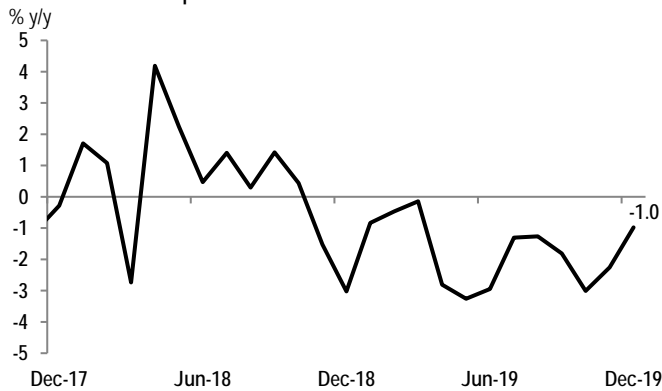
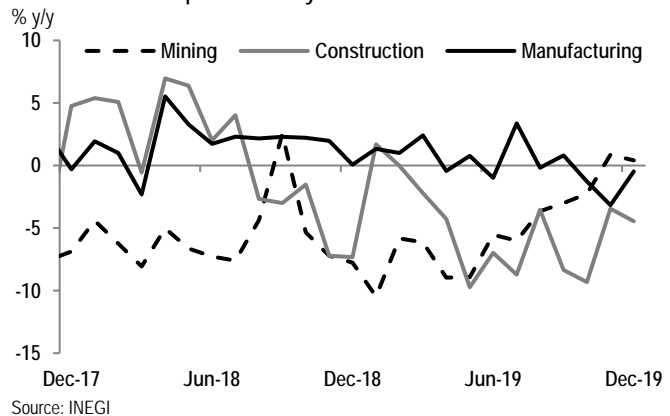
All in all, recent developments and today's data provide little comfort for a meaningful rebound in industry, at least in the short-term, despite some indicators in the US and Mexico suggesting a possible improvement at the turn of the year.

**Table 1: Industrial production**

% y/y nsa

	Dec-19	Nov-19	2019	2018
<b>Industrial Production</b>	<b>-1.0</b>	<b>-2.3</b>	<b>-1.8</b>	<b>0.5</b>
<b>Mining</b>	<b>0.4</b>	<b>0.9</b>	<b>-5.1</b>	<b>-5.7</b>
Oil and gas	0.4	0.8	-6.7	-6.8
Non-oil mining	-0.1	-0.2	-2.2	-2.4
Services related to mining	1.8	4.9	2.6	-3.8
<b>Utilities</b>	<b>6.5</b>	<b>3.3</b>	<b>2.3</b>	<b>7.5</b>
Electricity	8.1	3.8	2.6	9.2
Water and gas distribution	1.6	1.5	1.2	1.9
<b>Construction</b>	<b>-4.5</b>	<b>-3.5</b>	<b>-5.0</b>	<b>0.5</b>
Edification	-3.1	0.9	-3.0	1.2
Civil engineering	-7.4	-12.6	-6.1	-6.0
Specialized works for construction	-8.3	-13.9	-13.1	5.3
<b>Manufacturing</b>	<b>-0.5</b>	<b>-3.2</b>	<b>0.2</b>	<b>1.8</b>
Food industry	0.7	2.3	1.7	3.0
Beverages and tobacco	2.4	0.4	2.4	5.5
Textiles - Raw materials	-12.2	-6.5	-4.0	1.7
Textiles - Finished products ex clothing	-7.5	-11.6	-4.0	6.4
Textiles - Clothing	-4.4	-10.0	-4.7	1.2
Leather and substitutes	-3.6	-6.5	-2.1	-1.4
Woodworking	7.8	-0.6	0.3	-1.9
Paper	-2.8	0.4	-0.5	1.5
Printing and related products	-9.9	-9.9	-10.7	8.3
Oil- and carbon-related products	7.3	7.6	-2.7	-16.9
Chemicals	2.9	0.3	-1.5	-2.7
Plastics and rubber	4.0	-3.9	-2.1	2.6
Non-metallic mineral goods production	2.2	-0.7	-2.5	-1.9
Basic metal industries	-2.8	-3.2	-1.7	-1.9
Metal-based goods production	-4.6	-8.7	-5.6	1.0
Machinery and equipment	-8.4	-19.0	-1.3	1.9
Computer, communications, electronic, and other hardware	6.8	-5.1	4.8	2.2
Electric hardware	1.5	0.8	-0.9	1.5
Transportation equipment	-5.2	-6.5	1.3	4.5
Furniture, mattresses and blinds	5.1	-4.4	-3.6	6.4
Other manufacturing industries	-5.7	-1.1	0.2	2.3

Source: INEGI

**Chart 1: Industrial production**

**Chart 2: Industrial production by sector**


**Table 2: Industrial production**

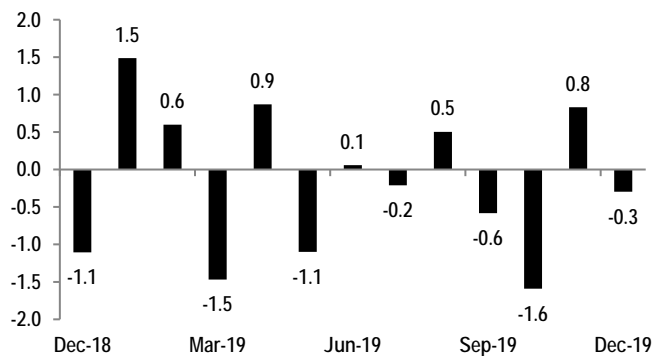
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-19	Nov-19	Oct-19	Dec-Oct '19	Nov-Sep '19
<b>Industrial Production</b>	<b>-0.3</b>	<b>0.8</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-1.1</b>
<b>Mining</b>	<b>-0.9</b>	<b>1.2</b>	<b>-0.5</b>	<b>0.9</b>	<b>1.4</b>
Oil and gas	0.0	3.1	-1.3	1.4	1.5
Non-oil mining	0.0	0.3	1.3	1.6	0.6
Services related to mining	-8.7	-5.7	-2.2	-5.7	1.4
<b>Utilities</b>	<b>0.6</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.7</b>	<b>1.2</b>
Electricity	1.1	-0.1	-0.1	1.0	1.5
Water and gas distribution	0.1	0.4	0.3	0.7	0.1
<b>Construction</b>	<b>0.6</b>	<b>1.1</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-2.2</b>
Edification	0.4	4.8	-2.3	-0.3	-1.9
Civil engineering	2.0	-6.4	-2.3	-7.8	-7.1
Specialized works for construction	2.8	-0.7	-1.5	1.0	1.0
<b>Manufacturing</b>	<b>0.5</b>	<b>0.0</b>	<b>-2.5</b>	<b>-2.1</b>	<b>-1.3</b>
Food industry	-1.2	-0.4	0.0	-0.5	0.2
Beverages and tobacco	0.7	-2.1	-0.9	-0.5	0.7
Textiles - Raw materials	-3.2	-1.1	3.8	-1.0	-4.0
Textiles - Finished products ex clothing	5.7	-10.2	8.0	1.1	-0.4
Textiles - Clothing	0.1	-2.9	-4.9	-4.3	-0.5
Leather and substitutes	-0.3	-3.3	-0.4	-3.2	-2.2
Woodworking	5.3	-0.9	-0.8	0.7	-0.8
Paper	-1.9	1.0	-0.6	-0.1	0.5
Printing and related products	-2.2	-1.2	-1.2	-5.3	-3.1
Oil- and carbon-related products	-1.3	-0.6	-1.3	-1.9	-0.3
Chemicals	-1.7	0.5	-0.9	-0.4	1.1
Plastics and rubber	6.3	3.7	-1.5	3.7	1.1
Non-metallic mineral goods production	0.0	3.3	-3.5	-1.5	-1.3
Basic metal industries	0.4	-2.1	-2.7	-4.4	-1.0
Metal-based goods production	-1.0	0.0	-1.0	-1.1	-0.1
Machinery and equipment	5.1	-9.5	-5.5	-11.7	-6.9
Computer, communications, electronic, and other hardware	3.5	-1.9	1.5	-0.1	-1.7
Electric hardware	-1.6	1.2	1.1	1.8	1.4
Transportation equipment	-1.9	6.9	-11.3	-7.4	-5.4
Furniture, mattresses and blinds	0.5	1.7	2.4	3.2	1.9
Other manufacturing industries	0.0	-0.9	-0.4	-1.3	-1.0

Source: INEGI

**Chart 3: Industrial production**

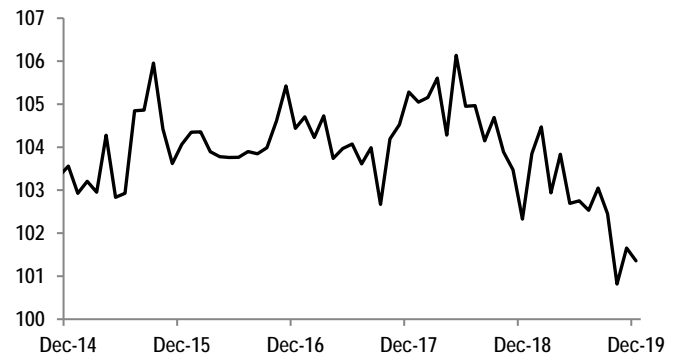
% m/m sa



Source: INEGI

**Chart 4: Industrial production**

Index sa



Source: INEGI

## Analyst Certification

We, Gabriel Casillas Olivera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

### Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

### Last-twelve-month activities of the business areas.

*Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

*Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.*

### Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

### Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

### Guide for investment recommendations.

	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

### Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

***The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.***

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
<b>Equity Strategy</b>			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
<b>Corporate Debt</b>			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
<b>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454