

Industrial production – Very weak in February, with more declines lying ahead

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- **Industrial production (February): -1.9% y/y; Banorte: 0.1%; consensus: -1.2% (range: -2.5% to 0.2%); previous: -1.6%**
- **It should be noted that the fall in the annual comparison happened despite the positive leap-year effect, which added one day. Adjusting for this effect, activity plunged 3.5%**
- **In monthly terms, activity edged down 0.6%, more than reversing the 0.3% gain seen in January and with all but one of the major components down**
- **Mining fell 2.0% but only after the 4.3% expansion of the previous month. Inside, oil barely moved at -0.1%, while non-oil declined -0.6%**
- **Construction declined 0.9%, breaking with three consecutive monthly increases. In line with the recent trend, civil engineering led the charge at -2.2%, while edification was slightly more favorable at -1.3%**
- **Manufacturing was also weak, contracting 0.7%, where we highlight the 25.0% plunge in oil-and-carbon goods production, with other key sectors moderating their expansion rate**
- **We expect a steeper contraction in March on global supply chain disruptions and stoppages in the second half of the month, while figures in April will probably show a near halt in several sectors**

Industrial activity disappoints in February, at -1.9% y/y. This was lower than consensus (-1.3%) and further away from our +0.1% estimate. With today's print, IP added 16 months in negative territory. Year-to-date (and using nsa figures), IP has fallen 1.8% (see [Table 1](#)). In addition, it should be noted that the monthly figure was skewed to the upside due to the leap-year effect, which added one more day in annual terms. Correcting for this and with seasonally adjusted data, activity contracted 3.5%. Inside, and using sa figures, mining was still high despite moderating with respect to recent trends, to 2.1%, still supported by the oil sector. Meanwhile, construction remains very weak at -9.5%, with contractions in both edification and civil engineering despite some favorable data for the latter, as physical investment by the Federal Government climbed 4.8% y/y in real terms. Finally, manufacturing reached recent lows, not fully recovering after important shocks in previous months ([Chart 2](#)).

Broad weakness in monthly terms. Industry fell 0.6% m/m ([Chart 3](#)), with three out of the four main subsectors negative. Mining fell 2.0%, with oil and gas (-0.1%) and non-oil mining (-0.6%) retracing part of the gains of the previous month, when the headline expanded 4.3% ([Table 2](#)). Construction broke with three straight sequential increases at -0.9%, with civil engineering (-2.2%) again lower relative to edification (-1.3%), even after a poor showing in January. Manufacturing lost steam (-0.7%; previous: 0.0%), with 15 out of 21 sectors lower.

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We highlight that oil-and-carbon related manufacturing plunged 25.0%, as capacity utilization in refining has fallen, evidenced by the 24.5% decrease in gasoline production, while diesel fell 36.6%. Moreover, key sectors such as computers (-1.2%) and chemicals (-0.5%) also declined. In addition, and despite remaining positive, both the food industry (0.3%) and transportation (1.3%) actually decelerated relative to January, driving the overall decrease further down. Finally, utilities were the only ones up at 1.9%, helped by electricity (2.6%).

A very significant hit in coming months is expected, not only globally but at the domestic level as well. As stated in some of our most recent publications, the outlook has considerably worsened and remains highly uncertain. The most relevant change relative to the scenario in our previous report is the scale of the extension and disruption of activity that the spread of the virus has caused in both the US and Mexico. In this sense, we now recognize a very deep impact to overall industry not only due to supply chain disruptions in countries such as the US and China, but also due to shutdowns and reduced activity domestically.

We believe the impact will be concentrated in both construction and manufacturing. Within the former, several projects have been stopped even before the March 30th declaration of a ‘sanitary emergency’, with an additional effect since the latter started. Edification and services will likely be hit the hardest, as according to some reports, activity in some marquee civil engineering projects of the Federal Government continue, such as the Santa Lucía Airport and the Dos Bocas refinery.

Going into manufacturing, supply woes that started in China in February have extended to the US –our main trading partner– and globally, with social distancing measures in the latter country becoming more widespread. There have been shutdowns in very relevant industries since mid-March, highlighting those in the auto sector. Major manufacturers –including Ford, GM and Fiat Chrysler– halted plant operations in North America in March 18th. These were quickly followed by other builders. The repercussions have been clear in our country, with the shutdown of all auto plants through the middle of the month by the end of March (with BMW the last to close according to media reports, on March 28th). As a result, auto production contracted 24.6% y/y, with an even higher impact expected for April. We expect a relatively similar trend in the rest of manufacturing, with plants shutting down –or at best operating at reduced capacity– for the rest of the emergency. However, some sectors, such as the food industry and oil-and-carbon products, might be among those impacted less, as they still produce essential goods.

Utilities could also be impacted, as energy demand is relatively less by households than businesses, especially industry. Nevertheless, core demand should remain relatively resilient. Meanwhile, anecdotal evidence suggests that oil-and-gas mining keeps operating at relatively normal levels, with offshore rigs offering some type of “natural hedge” as workers are relatively isolated from the virus. Nevertheless, we recognize risks for the operation of onshore sites could be mounting as the virus spreads.

Risks to the sector are high as low prices and high uncertainty still lingers, with special attention on the outcome of the OPEC+ meeting tomorrow. On non-oil mining, we expect the impact to be broad-based, as risks of contagion to workers are relatively high.

All in all, considering our forecast of a 3.5% contraction in GDP during the year, we anticipate a 6.2% fall in industrial production. Nevertheless, risks are clearly skewed to the downside, with the duration and impact of the virus playing a key part in determining the overall impact to activity and employment in the sector, which in the best-case scenario would be concentrated only in the next two months.

Table 1: Industrial production

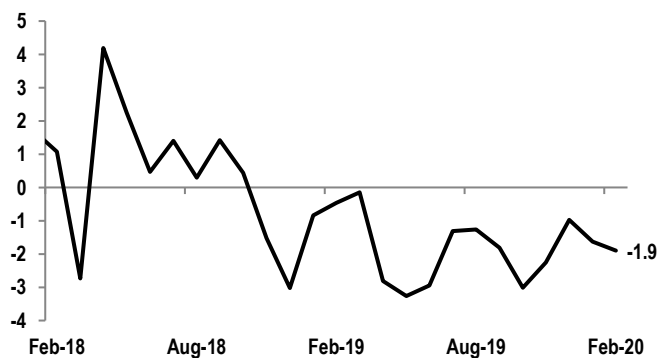
% y/y nsa, % y/y sa

	% y/y nsa				% y/y sa	
	Feb-20	Feb-19	Jan-Feb '20	Jan-Feb '19	Feb-20	Feb-19
Industrial Production	-1.9	-0.5	-1.8	-0.7	-3.5	-0.5
Mining	5.5	-5.8	5.6	-8.3	2.1	-5.9
Oil and gas	5.6	-8.6	6.3	-11.6	2.2	-8.6
Non-oil mining	2.3	0.8	1.8	-2.4	-1.1	0.9
Services related to mining	11.9	1.2	8.5	2.3	11.8	1.3
Utilities	1.6	-0.9	0.9	-0.7	1.5	-1.0
Electricity	1.8	-1.5	0.9	-1.3	1.7	-1.6
Water and gas distribution	0.9	1.1	1.0	1.1	1.0	1.2
Construction	-9.1	0.0	-8.8	0.8	-9.5	-0.9
Edification	-7.5	3.0	-7.4	3.9	-8.2	1.9
Civil engineering	-17.5	-5.1	-17.4	-3.9	-17.1	-5.3
Specialized works for construction	-7.9	-9.2	-6.7	-8.4	-8.1	-9.7
Manufacturing	-1.0	1.0	-1.0	1.2	-2.2	1.3
Food industry	3.5	1.9	2.8	1.3	1.6	1.9
Beverages and tobacco	0.5	5.6	0.8	5.0	-3.1	6.0
Textiles - Raw materials	-12.3	-1.2	-14.3	2.7	-11.2	-1.4
Textiles - Finished products ex clothing	-0.8	5.0	-1.2	3.2	-5.7	5.3
Textiles - Clothing	-4.4	-5.0	-4.4	-4.0	-3.3	-4.8
Leather and substitutes	-11.0	5.1	-9.6	2.0	-10.5	5.0
Woodworking	-2.1	2.4	-1.8	-1.9	-6.4	3.1
Paper	-1.8	2.1	-2.4	2.4	-4.3	2.3
Printing and related products	-1.5	-7.7	-0.9	-9.9	0.6	-6.2
Oil- and carbon-related products	-18.6	11.3	0.9	-4.8	-18.1	12.0
Chemicals	-0.5	-2.7	-1.0	-3.7	-2.8	-2.8
Plastics and rubber	-2.5	-1.1	-2.4	-1.4	-1.3	-1.1
Non-metallic mineral goods production	1.8	-4.3	0.9	-4.9	1.6	-4.6
Basic metal industries	-4.6	-0.1	-1.0	-1.1	-4.4	0.2
Metal-based goods production	-4.2	-3.9	-5.7	-1.8	-6.2	-3.0
Machinery and equipment	-6.9	3.5	-10.0	4.7	-5.9	3.1
Computer, communications, electronic, and other hardware	-4.4	2.6	-3.0	2.8	-3.7	3.6
Electric hardware	1.1	2.0	1.5	2.2	-2.1	2.0
Transportation equipment	0.0	0.7	-0.8	3.8	1.3	0.7
Furniture, mattresses and blinds	-5.3	0.3	-2.7	-0.5	-4.0	-0.1
Other manufacturing industries	-2.6	5.0	-2.8	4.1	-4.8	5.6

Source: INEGI

Chart 1: Industrial production

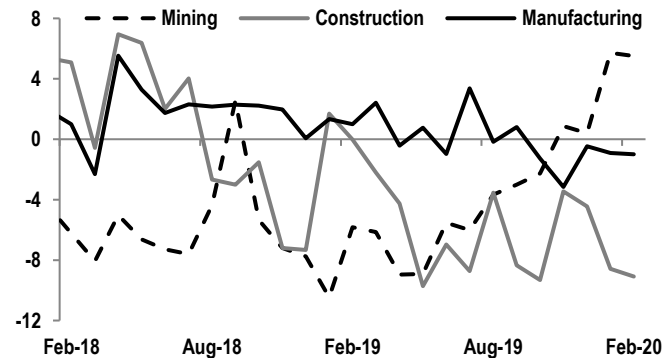
% y/y



Source: INEGI

Chart 2: Industrial production by sector

% y/y



Source: INEGI

Table 2: Industrial production

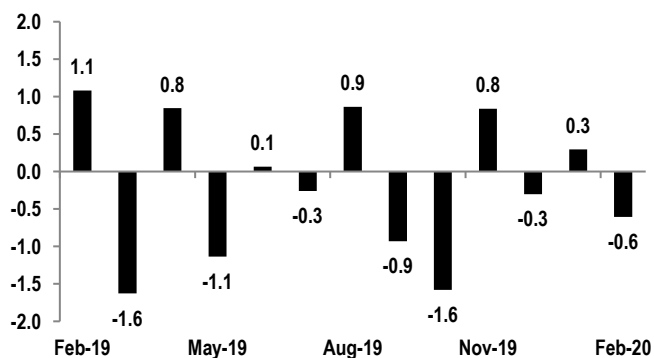
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-20	Jan-20	Dec-19	Dec'19-Feb'20	Nov'19- Jan'20-
Industrial Production	-0.6	0.3	-0.3	-0.3	-0.6
Mining	-2.0	4.3	-1.1	1.8	1.7
Oil and gas	-0.1	0.8	0.0	2.1	2.6
Non-oil mining	-0.6	0.8	0.0	0.9	1.7
Services related to mining	2.1	9.9	-7.1	-4.3	-8.8
Utilities	1.9	-4.3	0.1	-2.3	-1.7
Electricity	2.6	-5.7	0.6	-2.7	-2.0
Water and gas distribution	-0.3	-0.4	0.0	-0.1	0.4
Construction	-0.9	0.4	0.5	1.0	0.3
Edification	-1.3	1.2	0.4	3.1	2.8
Civil engineering	-2.2	-1.9	1.4	-5.6	-8.5
Specialized works for construction	-2.2	0.7	2.7	1.5	1.1
Manufacturing	-0.7	0.0	0.5	-0.5	-1.2
Food industry	0.3	1.1	-1.1	-0.6	-0.6
Beverages and tobacco	-1.9	0.9	0.6	-1.2	-1.2
Textiles - Raw materials	0.3	-1.5	-4.3	-5.0	-3.3
Textiles - Finished products ex clothing	-2.8	3.0	6.0	2.1	-2.1
Textiles - Clothing	-0.6	1.5	0.3	-2.7	-4.4
Leather and substitutes	0.7	-1.6	-0.5	-3.8	-4.8
Woodworking	-4.1	-4.0	5.9	0.8	0.7
Paper	-1.1	0.2	-2.0	-1.8	-0.8
Printing and related products	-2.4	6.5	-2.1	0.1	-3.5
Oil- and carbon-related products	-25.0	5.0	-1.8	-8.3	-1.5
Chemicals	-0.5	-1.2	-1.8	-2.9	-1.4
Plastics and rubber	-0.2	-7.0	6.0	2.3	3.5
Non-metallic mineral goods production	1.2	-0.2	0.2	1.5	1.0
Basic metal industries	-4.0	3.8	0.4	-0.8	-3.6
Metal-based goods production	-0.7	-2.0	-1.1	-3.1	-2.4
Machinery and equipment	2.6	2.1	6.0	-0.4	-9.0
Computer, communications, electronic, and other hardware	-1.2	-2.8	2.8	-0.4	-0.8
Electric hardware	-2.2	2.1	-1.7	0.2	2.3
Transportation equipment	1.3	3.7	-1.7	1.6	-0.5
Furniture, mattresses and blinds	-2.1	-1.1	0.4	0.8	1.8
Other manufacturing industries	-0.3	-0.9	-0.1	-1.5	-2.1

Source: INEGI

Chart 3: Industrial production

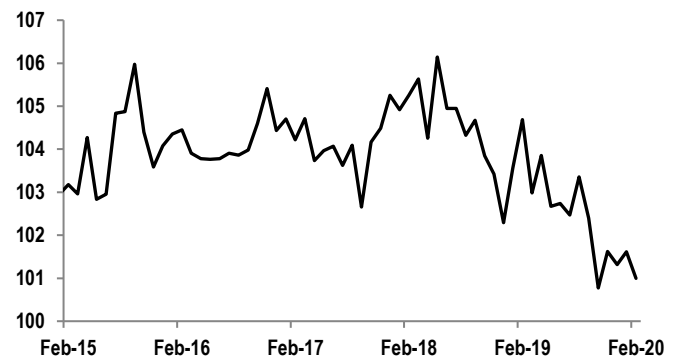
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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