

## Industrial production – Better than expected in March, despite the plunge in manufacturing

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- **Industrial production (March): -5.0% y/y; Banorte: -7.6%; consensus: -6.3% (range: -9.0% to -2.7%); previous: -1.9%**
- **It should be noted that performance was impacted by the COVID-19 shock, both due to supply chains disruptions as well as lower activity because of factory shutdowns, albeit less than expected**
- **In monthly terms, activity fell 3.4%, with all major components down and posting its biggest decline since January 2009, in the midst of the financial crisis**
- **Mining decreased 0.9% m/m, finding some support from the oil sector (+0.2%), which, based on production data, kept operating with relative normality**
- **Construction came in at -1.4%, with civil engineering relatively weak at -2.2% despite the continuation of flagship public projects. On the other hand, edification declined 0.8%**
- **Manufacturing was heavily impacted, at -4.8%. Key sectors such as autos (-21.5%) and machinery and equipment (-9.6%) led losses**
- **Even after this month's weakness, further downside is virtually certain at least in April and May, as more companies suspended operations for a greater number of days due to the pandemic**

**Industrial activity plummets 5.0% y/y in March.** This was stronger than consensus (-6.3%) and relative to our -7.6% forecast. It should be mentioned that it is also better than implied figures in the [preliminary GDP for 1Q20](#), inserting upside risks to the -1.6% y/y print already released. Construction plunged 7.5%, maintaining a weak trend since at least 2H18. Mining moderated its rate of expansion to 1.3%. Lastly, manufacturing registered its worst decline since October 2009 at -6.1%, due to both supply chain shocks and the shutdown of factories in the second half of the period ([Chart 2](#)). The period had an additional working day and was not strongly distorted by the timing of the Easter Holiday, although actions undertaken to fight the spread of COVID-19 likely influenced dynamics. Nonetheless, and with seasonally adjusted figures, IP fell 4.9% y/y (see [Table 1](#)).

**Strongest monthly decline since the 2009 financial crisis.** Industry plunged 3.4% m/m ([Chart 3](#)), strongly extending the 0.5% fall of the previous month. All four subsectors were down. Mining came in at -0.9%, with the oil component at 0.2%, still positive but with non-oil mining plunging 6.9% ([Table 2](#)). Construction was not as impacted as we expected but stayed weak, at -1.4%. Edification was relatively resilient at -0.8%, despite this subcomponent having a greater participation of the private sector, possibly benefited by the fact that the stoppage in activities in some states took place until the end of the month. On the contrary, civil engineering declined 2.2%, despite signs of an acceleration of physical investment from the Federal Government.

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Manufacturing was the weakest sector, extending its pace of decline from February as it stood at -4.8%, with the initial impact in the period coming from abroad but with greater problems domestically in late March. We highlight that transportation was the sector with the strongest downfall at -21.5%, after the shutdown of several plants. We also highlight a strong contraction in machinery and equipment (-9.6%) and textiles (-9.1%). On the other hand, the food industry (0.7%) advanced, with an increase in demand and benefitted by its status as an essential activity. Lastly utilities fell 1.8%, with both electricity and water and gas lower.

**Industry losses will be larger in 2Q20.** In this sense, we should remember that “Phase 2” of the pandemic was declared on March 23<sup>rd</sup>, which implied, among other things, some mobility restrictions. Nevertheless, the “sanitary emergency” wasn’t established until March 30<sup>th</sup>, which entailed the suspension of non-essential activities. So far, the Federal Government has stated that restrictions will start to be lifted of in mid-May, while in metropolitan areas with higher population density they will be lifted until the end of the month. In this respect, we will be looking for details about the reopening plan, which might be released on Wednesday or Thursday according to the President. Anyhow, news and available data so far point to a more severe contraction at least in April and May. In this context, we maintain our estimate of a 22.3% decline in IP in 2Q20 and -9.5% for the whole year.

For example, the President of the *Mexican Chamber of the Construction Industry* (CMIC), stated that more than 3,000 MSMEs in the sector have closed operations due to a lack of income and liquidity, so far leaving nearly 400,000 people without a job. Meanwhile, press reports mention that at least six states had halted all activities in the sector in April, including key states such as Nuevo León and Mexico City. This happens in a context in which business confidence for the sector reached new historical lows. In its daily press conference, the president mentioned this could be one of the first sectors to reopen and as soon as mid-May. Nevertheless, we consider that it will remain very weak even if this happens due to the plunge in demand.

In manufacturing, several industries have closed or at the very least reduced operations after the emergency was declared, with many of them considered non-essential. Among them are autos, with production in April at just 3,722 units, 98.8% below the figure seen in the same period of 2019 (practically all of it by KIA). So far in May, operations remain closed. Ford announced they will restart operations in a gradual manner on May 18<sup>th</sup> in some of its North American plants, including Cuautitlán and Hermosillo. Nevertheless, in the case of Volkswagen it would be until June 1<sup>st</sup> for its plants in Puebla and Guanajuato, also under strict sanitary measures. However, these could be delayed even further. Other industries that have seen a lot of issues include *maquiladoras*, electric and electronics, aerospace, textiles, breweries and chemicals, just to name a few.

In mining, the oil sector could stay relatively resilient, although it should be noted that at least in May and June, Mexico will reduce production by 100,000 bpd to close to 1,681k bpd as part of the [agreement with OPEC+](#). Moreover, Pemex decided to reduce its personnel on offshore oil rigs in Campeche since late April between 25% to 50% given the increase of COVID-19 cases, which will also impact production. For non-oil mining and as far as we know, a lot of companies are having similar problems to those observed in manufacturing, as they are not considered essential.

All in all, and despite that our estimates incorporate a strong contraction of industry, we consider risks are tilted to the downside in a context that will remain highly uncertain. Although the gradual reopening will be beneficial for the monthly comparison, annual rates will remain in contraction due to the inability of businesses to operate at full capacity due to sanitary and social distancing measures. Lastly, uncertainty regarding the moment in which activities will return to normal is still very high, which in turn has a strong impact on purchasing patterns from consumers, especially of durable goods.

**Table 1: Industrial production**

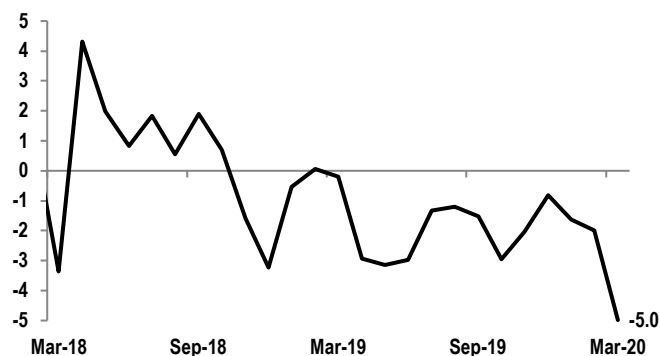
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	% y/y nsa				% y/y sa	
	Mar-20	Mar-19	Jan-Mar '20	Jan-Mar '19	Mar-20	Mar-19
<b>Industrial Production</b>	<b>-5.0</b>	<b>-0.2</b>	<b>-2.9</b>	<b>-0.2</b>	<b>-4.9</b>	<b>-2.2</b>
<b>Mining</b>	<b>1.3</b>	<b>-6.3</b>	<b>4.2</b>	<b>-7.7</b>	<b>1.5</b>	<b>-6.8</b>
Oil and gas	3.3	-7.4	5.2	-10.3	3.3	-8.0
Non-oil mining	-5.9	-5.4	-0.8	-3.2	-5.8	-8.3
Services related to mining	2.1	2.3	6.9	2.3	5.5	1.5
<b>Utilities</b>	<b>-0.8</b>	<b>2.4</b>	<b>0.3</b>	<b>0.3</b>	<b>-0.5</b>	<b>1.4</b>
Electricity	-0.4	2.8	0.4	0.1	0.0	1.4
Water and gas distribution	-2.0	0.9	0.0	1.0	-2.0	0.8
<b>Construction</b>	<b>-7.5</b>	<b>-2.3</b>	<b>-8.2</b>	<b>-0.2</b>	<b>-7.0</b>	<b>-4.9</b>
Edification	-4.7	0.1	-6.3	2.6	-3.6	-3.0
Civil engineering	-17.8	-6.2	-17.4	-4.5	-18.0	-7.4
Specialized works for construction	-9.3	-8.3	-7.5	-8.1	-9.6	-10.1
<b>Manufacturing</b>	<b>-6.1</b>	<b>2.4</b>	<b>-2.9</b>	<b>2.1</b>	<b>-6.4</b>	<b>-0.8</b>
Food industry	3.5	1.2	2.8	1.0	3.5	-0.4
Beverages and tobacco	-1.0	0.7	0.2	3.1	-1.6	-0.8
Textiles - Raw materials	-12.7	-0.3	-13.9	1.9	-13.7	-9.1
Textiles - Finished products ex clothing	-0.2	-0.7	-0.8	3.0	0.1	-5.3
Textiles - Clothing	-12.6	-0.9	-7.3	-2.5	-14.0	-5.7
Leather and substitutes	-11.9	4.2	-10.2	2.5	-12.1	-3.7
Woodworking	-15.7	1.2	-6.5	-0.4	-15.8	0.2
Paper	0.3	2.0	-1.5	2.4	0.4	-0.9
Printing and related products	-4.9	-3.6	-2.2	-8.5	-6.3	-5.5
Oil- and carbon-related products	-2.4	-8.3	-4.1	-6.1	-1.9	-10.0
Chemicals	2.4	-2.4	0.2	-3.3	1.5	-5.2
Plastics and rubber	-5.6	3.4	-3.5	0.2	-6.7	-1.8
Non-metallic mineral goods production	0.1	-3.5	0.4	-3.4	-0.2	-7.0
Basic metal industries	-8.0	-2.1	-3.2	-1.7	-8.2	-4.8
Metal-based goods production	-4.4	-6.1	-5.3	-3.5	-4.5	-9.7
Machinery and equipment	-13.7	2.3	-10.6	3.9	-13.3	-1.4
Computer, communications, electronic, and other hardware	-7.3	13.3	-4.7	7.3	-7.8	8.3
Electric hardware	3.3	-2.0	2.1	0.8	2.2	-5.8
Transportation equipment	-20.3	7.2	-8.1	7.4	-21.1	1.0
Furniture, mattresses and blinds	-10.4	-4.5	-5.3	-2.2	-11.5	-8.5
Other manufacturing industries	-1.4	5.8	-2.4	4.7	-2.8	0.3

Source: INEGI

**Chart 1: Industrial production**

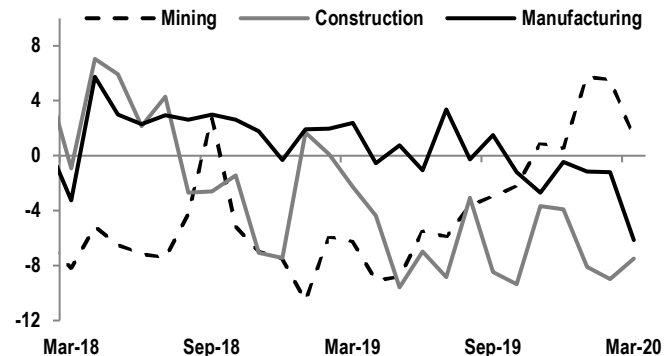
% y/y



Source: INEGI

**Chart 2: Industrial production by sector**

% y/y



Source: INEGI

**Table 2: Industrial production**

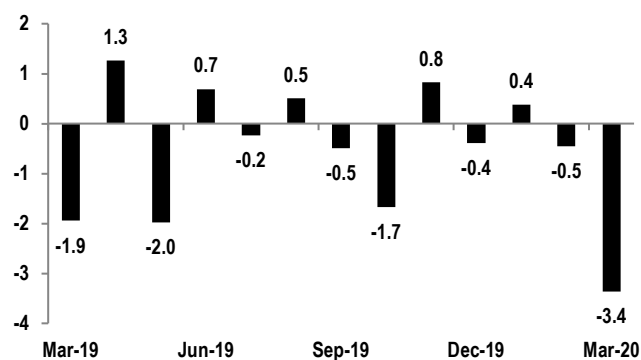
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	% m/m			% 3m/3m	
	Mar-20	Feb-20	Jan-20	Jan-Mar'20	Dec'19-Feb'20
<b>Industrial Production</b>	<b>-3.4</b>	<b>-0.5</b>	<b>0.4</b>	<b>-1.0</b>	<b>-0.3</b>
<b>Mining</b>	<b>-0.9</b>	<b>-1.0</b>	<b>1.4</b>	<b>0.3</b>	<b>0.5</b>
Oil and gas	0.2	0.1	0.3	1.6	1.8
Non-oil mining	-6.9	-0.7	0.4	-2.2	0.7
Services related to mining	-5.7	2.0	9.1	1.7	-4.3
<b>Utilities</b>	<b>-1.8</b>	<b>1.3</b>	<b>-3.8</b>	<b>-3.6</b>	<b>-2.3</b>
Electricity	-1.9	2.4	-5.5	-4.4	-2.7
Water and gas distribution	-2.5	-0.2	-0.4	-1.3	-0.2
<b>Construction</b>	<b>-1.4</b>	<b>-1.2</b>	<b>0.6</b>	<b>0.1</b>	<b>0.8</b>
Edification	-0.8	-1.0	0.6	1.3	2.6
Civil engineering	-2.2	-2.2	-1.7	-5.3	-5.8
Specialized works for construction	-2.3	-2.0	0.8	0.0	1.0
<b>Manufacturing</b>	<b>-4.8</b>	<b>-0.5</b>	<b>0.5</b>	<b>-1.6</b>	<b>-0.9</b>
Food industry	0.7	0.0	1.0	0.2	-0.8
Beverages and tobacco	-0.2	-2.8	1.1	-1.1	-1.3
Textiles - Raw materials	-3.2	0.1	-1.5	-6.0	-6.3
Textiles - Finished products ex clothing	-1.4	-4.6	5.5	2.0	2.5
Textiles - Clothing	-9.1	-0.8	1.8	-3.3	-3.1
Leather and substitutes	-4.5	-1.8	-3.0	-6.3	-4.3
Woodworking	-10.0	-2.6	-5.2	-7.8	-0.9
Paper	2.2	-1.7	0.2	-1.4	-2.2
Printing and related products	-2.8	-1.8	5.2	1.6	-0.1
Oil- and carbon-related products	14.6	-17.0	-4.2	-12.3	-11.0
Chemicals	1.9	-0.5	-1.0	-1.8	-2.9
Plastics and rubber	-5.0	0.0	-5.3	-3.8	0.5
Non-metallic mineral goods production	-1.7	0.4	-0.5	0.3	1.2
Basic metal industries	-2.2	-6.4	4.7	0.3	0.9
Metal-based goods production	-1.3	-1.0	-1.8	-3.5	-2.9
Machinery and equipment	-9.6	4.8	-0.5	0.2	-0.7
Computer, communications, electronic, and other hardware	-1.1	0.1	-1.2	-2.4	-2.4
Electric hardware	2.0	-2.8	1.7	-0.2	-0.9
Transportation equipment	-21.5	1.6	5.6	-0.7	1.4
Furniture, mattresses and blinds	-8.4	-2.1	0.2	-4.2	-0.1
Other manufacturing industries	1.3	-0.6	-1.0	-1.8	-3.8

Source: INEGI

**Chart 3: Industrial production**

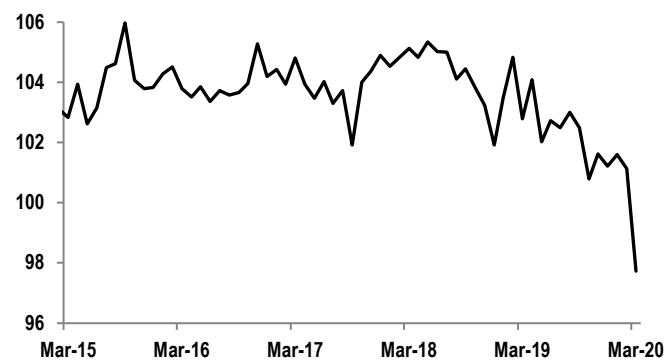
% m/m sa



Source: INEGI

**Chart 4: Industrial production**

Index sa



Source: INEGI

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