

Industrial production – Historical decline in April due to pandemic shutdowns

- **Industrial production (April): -29.3% y/y; Banorte: -21.6%; consensus: -20.2% (range: -28.0% to -10.8%); previous: -4.9%**
- **It should be noted that this is the worst decline in the historical series (back to 1993), explained by halted activities with the aim to stop the spread of COVID-19**
- **In monthly terms, activity plunged 25.1%, also a historic decline, with two out of the four big sectors with a double-digit contraction**
- **Construction was the most impacted, falling 32.8% m/m, with edification (-38.2%) lower than civil engineering (-16.7%), with the latter in our view partly supported by the continuation of flagship projects**
- **Manufacturing came in at -30.5% m/m, with transportation (-81.1%) and textiles' raw materials (-74.0%), leading downwards. On the contrary, the food industry showed some resiliency (-0.2%), benefitted by its status as an essential activity**
- **Mining decreased 5.6%, with losses in non-oil mining (-25.7%), while oil exhibited relatively more stability at -0.6%**
- **We expect activity to have remained very slow in May, albeit with some improvement relative to April. Going forward, weakness will likely linger around even with less severe social distancing measures as companies will not be able to operate at full capacity along lower global economic activity**

Industry posts a historical decline in April. The fall came in at -29.3% y/y, below consensus (-20.2%) and also away from our -21.6%. This is the steepest decline since the series is available (see [Chart 1](#)). The overall dynamic is explained by the stoppage of activities to fight the contagion of COVID-19. There were also negative effects from disruptions in foreign supply chains, impacting the production of some essential goods. In this sense, manufacturing contracted an impressive 35.3%, with all subsectors down except food ([Table 1](#)). Construction showed the steepest decline at 38.0% ([Chart 2](#)), strongly affected by social distancing measures, mostly impacting the private sector. Meanwhile, mining came in at -3.6%, with some strength in oil (+3.1%), although not enough to compensate for the decline in the rest of the sector. Finally, public services declined 3.5%, dragged by the generalized decline in economic activity.

Historical downfall also in monthly terms. Industry plunged 25.1% m/m ([Chart 3](#)), also the steepest decrease since the series is available. Similar to the performance in the annual comparison, all four subsectors were negative, also with construction as the weakest at -32.8%. Nonetheless, manufacturing was not very much behind at -30.5%, with a massive hit in transportation (-81.1%), dragged heavily by auto plant shutdowns. In this sense, and as already mentioned, vehicle production fell 98.8%.

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Other categories with very strong declines included textiles' raw materials (-74.0%), clothing (-73.9%) and other textiles (-65.9%), likely impacted by both being mostly done at a big-scale in *maquiladoras* and their designation as non-essential. On the contrary, food (-0.2%) and oil and carbon (-1.8%) were more resilient, benefited by their status as essential ([Table 2](#)).

Within construction, edification stood at -38.2% and civil engineering at -16.7%. As previously explained, the latter were likely aided by the fact that they could still operate in some states as well as due to the continuation of some flagship projects by the Federal Government (*e.g.* Santa Lucía airport and Dos Bocas refinery). However, a negative factor is still the lack of investment in other projects on austerity measures, prevalent even before the pandemic hit. Mining declined 5.6%, with oil at -0.6% and non-oil at -25.7%. In this sense, the large spread between them is explained by most activities within the latter being classified as non-essential. Finally, public services edged-down 1.1%, with most of the contraction in water and gas (-2.1%), driven by the overall decline in economic activity and mobility restrictions which pushed demand down.

Weakness will continue in coming months, albeit probably by a lower magnitude. The seasonally-adjusted activity index reached a new low not seen since early 1996 ([Chart 4](#)), clearly showing the unprecedented magnitude of the effect from the pandemic. We believe this month will be the lowest point in terms of activity this year, strongly impacted by social distancing measures and shutdowns both domestically and externally. In this context, we expect a sequential recovery in May, although gradual as it will still be affected by the extension of distancing measures –in the best case, with workplace reconditioning; in the worst, with additional stoppages–. Anyhow, it is likely that businesses will not operate at full capacity due to the need to comply with sanitary measures. An additional headwind will be supply chain disruptions, as the virus and measures to fight it are applied differently worldwide.

Despite of the latter, we cannot rule out another fall given mixed signals in forward-looking data. By sectors, auto production within manufacturing improved to -93.7% y/y in May from -98.8% in April, with total vehicles rising to 22,119 from 3,722. We should also consider the modest recovery in both the manufacturing PMI and ISM in the US, which could boost performance in our country. Nevertheless, and on the contrary, the IMEF PMI in Mexico decreased further to 39.2pts, a new historical low. Inside, dynamics are not favorable, with both production and new orders lower. Besides, other opinion indicators show a similar trend, which leads us to believe that caution is in order while additional data is needed to shed more light on the overall direction for activity.

Signals in mining are mostly negative, given the OPEC+ agreement that came into force in May, implying a reduction of 100 kbpd. A decrease of this magnitude would be close to -1.9% y/y in national crude output. Nevertheless, we must also consider reports of the withdrawal of personnel from offshore rigs in the Gulf of Mexico due to concerns over workers' health and Pemex canceling contracts with some companies that supply services to the company on austerity efforts, a situation that may likely result in even lower output.

Besides, the situation in non-oil mining remained challenging as it was not catalogued as essential until June, along the fact that commodities prices were mostly depressed, possibly impacting production decisions.

In construction, confidence and activity indicators for May point to a further deceleration. Nevertheless, IMEF's non-manufacturing PMI, which includes construction, improved from its historical low in the previous month. Reports assure that activity was still depressed, also impacted by the extension of social distancing measures.

All in all, we believe activity may have bottomed in April, although still with a high degree of uncertainty about its trend in May. For June, the recovery will likely be stronger, aided by [the plan to reopen the economy](#) which includes the designation of new essential industries (autos, construction and mining) as well as efforts to restart work in other branches. In this context, Labor Minister Luisa María Alcalde informed that 42% of businesses in these latter sectors have already restarted after fulfilling the protocols set by authorities, 34% haven't started operations and 16% are still closed. We maintain our estimate that the strongest impact in this sector will happen in 2Q20 at -22.3% y/y, although today's surprise to the downside significantly adds risks for both industry and overall GDP.

Table 1: Industrial production

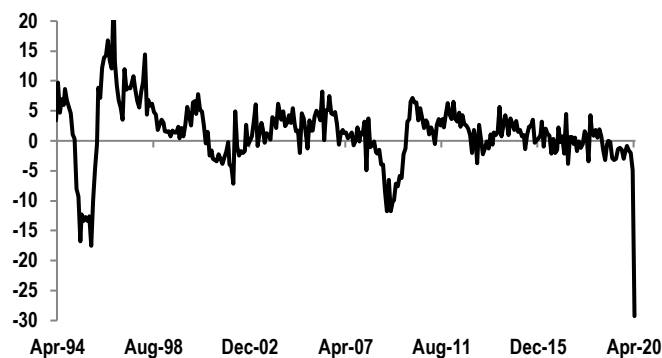
% y/y nsa, % y/y sa

	% y/y nsa				% y/y sa	
	Apr-20	Apr-19	Jan-Apr '20	Jan-Apr '19	Apr-20	Apr-19
Industrial Production	-29.3	-4.9	-9.3	-0.9	-29.6	-0.7
Mining	-3.6	1.8	2.4	-8.0	-3.6	-8.2
Oil and gas	3.1	3.4	4.7	-10.2	3.0	-9.4
Non-oil mining	-30.2	-4.0	-7.8	-3.7	-30.1	-1.9
Services related to mining	11.0	2.6	7.6	-0.4	11.3	-7.1
Utilities	-3.5	-0.8	-0.7	-0.1	-3.5	0.6
Electricity	-3.4	-0.5	-0.6	-0.4	-3.4	0.5
Water and gas distribution	-4.1	-2.0	-1.0	0.9	-4.1	0.8
Construction	-38.0	-7.5	-15.4	-1.2	-38.4	-2.8
Edification	-40.4	-4.6	-14.4	1.1	-41.3	-1.5
Civil engineering	-31.9	-18.0	-21.1	-4.8	-32.2	-5.4
Specialized works for construction	-33.0	-9.4	-14.0	-7.7	-33.6	-5.9
Manufacturing	-35.3	-6.1	-10.9	1.4	-35.5	2.8
Food industry	1.2	3.6	2.5	0.6	1.4	1.2
Beverages and tobacco	-37.0	-0.9	-10.0	2.2	-37.0	1.1
Textiles - Raw materials	-77.8	-12.7	-29.0	-1.1	-77.7	0.4
Textiles - Finished products ex clothing	-67.8	1.0	-16.2	1.8	-67.6	2.0
Textiles - Clothing	-77.9	-12.5	-25.2	-3.7	-77.6	-3.5
Leather and substitutes	-86.9	-11.9	-29.5	-0.6	-87.0	-1.5
Woodworking	-38.1	-16.2	-14.1	-1.3	-36.9	-3.0
Paper	-13.0	0.3	-4.3	1.8	-13.5	2.6
Printing and related products	-49.9	-5.0	-13.6	-9.9	-49.6	-11.4
Oil- and carbon-related products	-4.7	-2.4	-4.2	-10.2	-4.6	-18.2
Chemicals	-7.7	2.1	-1.7	-4.0	-6.9	-4.4
Plastics and rubber	-35.9	-5.7	-11.7	-1.7	-35.8	-1.3
Non-metallic mineral goods production	-39.2	0.2	-9.3	-3.6	-39.4	0.3
Basic metal industries	-24.9	-7.8	-8.4	-3.3	-25.1	-5.8
Metal-based goods production	-40.4	-4.3	-14.0	-4.6	-40.6	-3.1
Machinery and equipment	-43.3	-13.7	-18.8	2.1	-43.9	1.5
Computer, communications, electronic, and other hardware	-28.3	-7.2	-10.4	7.2	-28.7	9.6
Electric hardware	-10.0	3.2	-0.8	-0.4	-10.1	0.1
Transportation equipment	-85.3	-20.3	-26.9	7.5	-85.6	16.1
Furniture, mattresses and blinds	-66.1	-10.3	-20.8	-1.1	-66.0	6.9
Other manufacturing industries	-32.9	-0.8	-9.8	4.6	-33.0	9.9

Source: INEGI

Chart 1: Industrial production

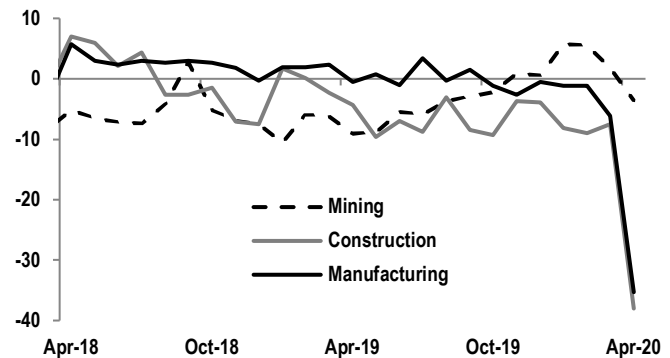
% y/y



Source: INEGI

Chart 2: Industrial production by sector

% y/y



Source: INEGI

Table 2: Industrial production

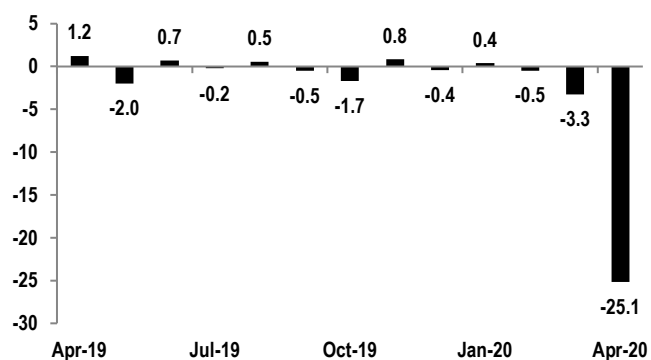
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	% m/m			% 3m/3m	
	Apr-20	Mar-20	Feb-20	Feb-Apr'20	Jan-Mar'20
Industrial Production	-25.1	-3.3	-0.5	-10.6	-1.0
Mining	-5.6	-0.6	-1.0	-2.5	0.5
Oil and gas	-0.6	0.2	0.1	0.3	1.6
Non-oil mining	-25.7	-5.4	-0.8	-12.2	-1.9
Services related to mining	3.0	-5.3	2.1	3.2	2.2
Utilities	-1.1	-1.9	1.5	-2.8	-3.7
Electricity	-0.9	-2.0	2.3	-3.0	-4.5
Water and gas distribution	-2.1	-2.5	-0.1	-2.7	-1.3
Construction	-32.8	-1.4	-1.3	-12.5	0.0
Edification	-38.2	-0.8	-1.1	-13.7	1.2
Civil engineering	-16.7	-2.3	-2.2	-9.8	-5.3
Specialized works for construction	-24.8	-2.3	-2.0	-10.3	0.0
Manufacturing	-30.5	-4.7	-0.5	-13.1	-1.6
Food industry	-0.2	0.6	0.0	0.6	0.2
Beverages and tobacco	-35.6	-0.2	-2.8	-13.5	-1.1
Textiles - Raw materials	-74.0	-3.2	0.1	-27.8	-6.0
Textiles - Finished products ex clothing	-65.9	-0.7	-4.4	-21.8	2.2
Textiles - Clothing	-73.9	-9.0	-0.7	-28.3	-3.2
Leather and substitutes	-85.0	-4.5	-1.8	-32.6	-6.3
Woodworking	-26.9	-10.4	-2.5	-18.8	-7.9
Paper	-12.0	2.4	-1.6	-4.8	-1.3
Printing and related products	-48.6	-2.8	-1.8	-16.9	1.6
Oil- and carbon-related products	-1.8	14.9	-17.0	-12.4	-12.1
Chemicals	-7.6	1.8	-0.6	-3.2	-1.9
Plastics and rubber	-30.6	-5.1	0.0	-15.3	-3.9
Non-metallic mineral goods production	-38.3	-1.7	0.4	-13.6	0.3
Basic metal industries	-19.9	-2.0	-6.4	-10.2	0.4
Metal-based goods production	-35.5	-1.3	-1.1	-14.7	-3.5
Machinery and equipment	-35.1	-9.6	4.8	-11.6	0.2
Computer, communications, electronic, and other hardware	-23.0	-1.0	0.1	-8.7	-2.2
Electric hardware	-11.5	2.0	-2.8	-4.8	-0.2
Transportation equipment	-81.1	-21.5	1.6	-32.9	-0.8
Furniture, mattresses and blinds	-60.4	-8.1	-2.0	-25.5	-4.0
Other manufacturing industries	-30.3	1.7	-0.6	-10.7	-1.6

Source: INEGI

Chart 3: Industrial production

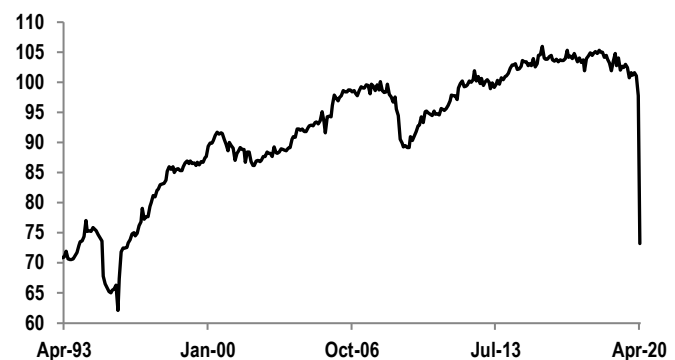
% m/m sa



Source: INEGI

Chart 4: Industrial production

Index sa



Source: INEGI

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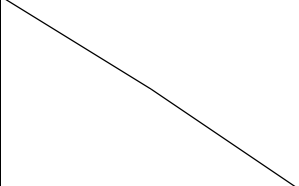
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