

Industrial production – Weakness extended in May

- **Industrial production (May): -30.7% y/y nsa; Banorte: -30.0%; consensus: -27.0% (range: -31.2% to -17.2%); previous: -29.3%**
- **It should be noted that this figure was even below that of the previous month, thus resulting in a new historical low (back to 1993), still highly impacted by efforts to combat COVID-19 and despite some steps forward to restart activities**
- **In monthly terms activity contracted 1.8%, slightly more than our expectations. Inside, the four main sectors furthered their declines**
- **Mining was very low at -3.0% m/m, impacted by output cuts in the oil sector (-4.8%) as well as additional losses in non-oil (-1.3%)**
- **Construction kept declining, coming in at -1.3%, with weakness centered in civil engineering (-3.1%) and a modest recovery in edification (1.7%)**
- **Manufacturing was slightly stronger at -0.3%, albeit still dragged down by the fall in electrical equipment (-13.5%), plastics (-11.4%) and machinery and equipment (-4.6%). On the contrary, we saw a recovery in transportation (+42.6%) and textiles ex. clothing (+60.2%)**
- **We expect a sequential recovery in June, with positive signals in several sectors. This would be mainly supported by the designation of other key industries as essential and more dynamism in the US**
- **Nevertheless, risks to our -26.5% y/y estimate for industrial production in 2Q20 are tilted to the downside after today's report**

Industry declines more heavily in May. The fall came in at -30.7% y/y, below consensus (-27.0%) but closer to our -30.0%. By coming in lower than the previous month, this represents a new historical low since the series is available (see [Chart 1](#)). Similar to April, performance was driven by actions to fight the spread of COVID-19. Nevertheless, we think there were other factors that led to a greater decline. One of the clearest was in mining, with a relevant deterioration to -5.9%, given the start of output cuts as part of [OPEC+'s agreement](#) ([Table 1](#)). Meanwhile, manufacturing declined further at -37.1%, now with all subsectors in contraction ([Chart 2](#)). In general, we believe this is explained by the extension in the stand-still of activity. This happened even after the government unveiled its [reopening plans](#) by the middle of the month and started business inspections that were required to restart. On the other hand, this lingering weakness was less evident in construction, which improved slightly to -36.3%, partly driven by a more favorable base effect. Finally, public services declined 13.1%, dragged even further by the generalized decline in the economy.

The decline continued in monthly terms. Industry edged down 1.8% m/m ([Chart 3](#)), reflecting that weakness persisted in the period. Contrary to our view, all sectors posted additional declines. Public services were the worst at -10.2%, albeit after being the most resilient in April. Mining was another heavy drag at -3.0%.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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As mentioned previously, oil output cuts were the main driver, with this subsector falling 4.8%. However, non-oil was also lower at -1.3%, inching lower after the -26.8% of the previous month ([Table 2](#)).

Construction (-1.3%) and manufacturing (-0.3%) were slightly stronger. Within the former, edification surprised at +1.7%, although drowned by declines in both civil engineering (-3.1%) and specialized services (-6.3%). In the latter we saw a more mixed performance, as 11 of the 21 subsectors were stronger. There were relevant upticks in transportation (+42.6%) and textiles ex. clothing (+60.2%). Nevertheless, we should mention that this came after showing some of the steepest declines in April. On the contrary, important declines were observed in electrical equipment (-13.5%), plastics (-11.4%) and machinery and equipment (-4.6%). Finally, defensive sectors such as the food industry (-1.6%) and oil and carbon (+2.6%) exhibited a relatively stable performance.

With these results, the seasonally-adjusted activity index furthered its decline, reaching a new low since late 1995 ([Chart 4](#)), clearly showing the unprecedented impact from the pandemic. Nevertheless, and as detailed further below, we believe this might be the lowest point going forward.

We anticipate a slight sequential recovery in June, although still weak in annual terms. After today's results, which in our view showed that the impact of social distancing measures and stay-at-home recommendations extended sizably, we expect June figures to improve. Nevertheless, uncertainty remained high as the epidemiological 'traffic-light' indicator stayed at red and orange for all states, with the latter only enabling a partial restart of some non-essential activities. This is also consistent with some pick up in mobility, as signaled by both *Apple* and *Google*'s indicators. Another positive factor was the designation of construction (mainly private, as some government works continued), non-oil mining and manufacturing of transportation equipment, as essential –which account for close to 30% of IP and 9.4% of GDP–. Nevertheless, we should mention that we do not expect activity to jump by the magnitude implied by their total share. Specifically, a process is in place to ensure a safe resumption, on top of other considerations that might dampen dynamism such as depressed demand. In this backdrop, INEGI's manufacturing survey showed that total plan capacity utilization in April stood at 44.7%, which is 36.1%-pts lower than the same period a year ago and 35.5%-pts below March. Although these indicators likely improved with the gradual reopening of the economy, we believe they will remain quite low when compared to pre-pandemic levels.

On the other hand, IMEF's manufacturing PMI increased 4.4pts to 42.0pts. Although 'new orders' and 'production' improved the most, they are the lowest in absolute terms, suggesting a recovery would be modest at best. Several reports affirm automakers started to resume production since the middle of June. This is consistent with production data which improved to 238,946 vehicles, standing at -29.3% y/y from -93.7% in May. Moreover, signals from the US are also positive, with both the PMI and ISM manufacturing indicators higher, although with only the latter back in expansion at 52.6pts (previous: 43.1pts). The 'imports' component increased 7.5pts to 48.8pts, which might be an additional tailwind for our country.

On construction, INEGI's soft indicators such as the monthly opinion survey also suggests an uptick, with executed works by both contractors and subcontractors improving not from their historical lows in May, but also relative to April. In addition, groundwork on the *Mayan Train* started at the beginning of the month, on top of continuing activities in the Dos Bocas Refinery and Santa Lucía Airport, which should continue providing some support. Nevertheless, it is our take that this sector's recovery will only be gradual, as uncertainty will probably have the greatest adverse impact in it among the different components within IP.

Regarding mining, non-oil might start to show a modest recovery given its designation as essential and some renewed optimism worldwide, which has pushed some commodity prices up. However, there were several reports about Pemex's delay of payments to suppliers on the back of austerity measures, which on top of the continuation of the OPEC+ cut, will probably hit output. In this sense, we need more information to see which turns out to have a more significant effect.

Overall, results in April and May –coupled with available forward-looking data– implies some downward risks to our current forecast of a 26.5% y/y industry contraction in 2Q20. In this context, we stay focused on further information in coming weeks, as they will help us calibrate the most likely number for final GDP in the quarter, which we currently estimate at -19.4%.

Table 1: Industrial production
% y/y nsa

	May-20	May-19	Jan-May '20	Jan-May '19
Industrial Production	-30.7	-3.1	-13.7	-1.2
Mining	-5.9	-8.9	0.7	-6.2
Oil and gas	-0.9	-9.6	3.6	-9.0
Non-oil mining	-30.9	-4.1	-12.7	-3.7
Services related to mining	20.1	-14.5	9.4	13.5
Utilities	-13.1	3.6	-3.3	0.1
Electricity	-15.1	4.4	-3.7	0.0
Water and gas distribution	-5.4	0.8	-1.9	0.8
Construction	-36.3	-9.6	-19.4	-3.1
Edification	-37.6	-8.3	-18.8	-1.1
Civil engineering	-32.6	-9.6	-23.3	-5.9
Specialized works for construction	-34.1	-16.3	-17.5	-9.6
Manufacturing	-37.1	0.7	-16.3	1.0
Food industry	-3.7	2.7	1.2	1.6
Beverages and tobacco	-39.2	-1.2	-16.4	-1.3
Textiles - Raw materials	-76.9	-1.9	-39.4	-3.6
Textiles - Finished products ex clothing	-50.4	2.3	-23.5	4.0
Textiles - Clothing	-76.7	-4.4	-35.8	-4.9
Leather and substitutes	-86.9	-3.1	-41.7	-3.5
Woodworking	-45.3	3.5	-20.4	2.5
Paper	-21.6	-1.0	-7.9	1.2
Printing and related products	-32.9	-15.9	-17.5	-9.4
Oil- and carbon-related products	-3.0	-13.2	-4.0	-11.5
Chemicals	-15.5	-1.2	-4.6	-2.4
Plastics and rubber	-43.2	-5.6	-18.1	-2.3
Non-metallic mineral goods production	-32.9	-4.5	-14.1	-3.4
Basic metal industries	-23.7	-2.5	-11.5	-2.9
Metal-based goods production	-47.0	-5.4	-20.8	-5.2
Machinery and equipment	-47.7	0.7	-24.7	1.1
Computer, communications, electronic, and other hardware	-28.0	7.3	-14.1	7.5
Electric hardware	-23.9	-1.3	-5.4	-1.4
Transportation equipment	-80.7	3.9	-38.3	5.4
Furniture, mattresses and blinds	-64.1	-6.7	-29.5	-2.0
Other manufacturing industries	-27.7	0.2	-13.3	3.5

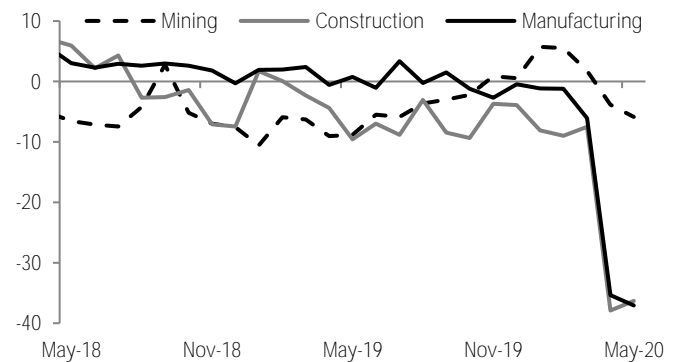
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



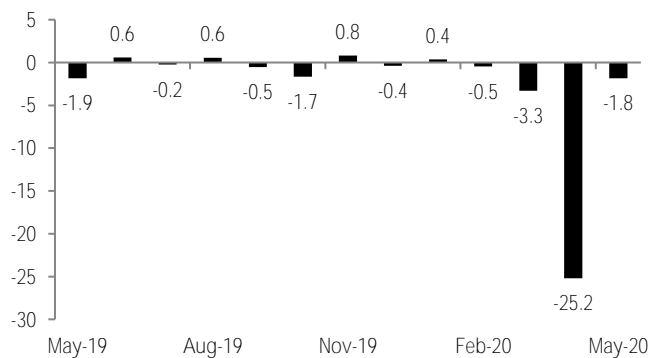
Source: INEGI

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

	% m/m			% 3m/3m	
	May-20	Apr-20	Mar-20	Mar-May'20	Feb-Apr'20
Industrial Production	-1.8	-25.2	-3.3	-20.1	-10.6
Mining	-3.0	-5.9	-0.6	-5.6	-2.6
Oil and gas	-4.8	-0.7	0.2	-1.7	0.3
Non-oil mining	-1.3	-26.8	-5.4	-22.9	-12.5
Services related to mining	4.6	3.0	-5.2	2.8	3.5
Utilities	-10.2	-1.0	-1.8	-6.2	-2.8
Electricity	-12.5	-0.8	-2.0	-6.9	-2.9
Water and gas distribution	-1.0	-1.9	-2.4	-4.3	-2.8
Construction	-1.3	-32.8	-1.5	-23.8	-12.4
Edification	1.7	-38.1	-0.8	-26.0	-13.6
Civil engineering	-3.1	-16.5	-2.4	-15.8	-9.8
Specialized works for construction	-6.3	-25.0	-2.3	-21.0	-10.4
Manufacturing	-0.3	-30.6	-4.7	-24.4	-13.1
Food industry	-1.6	-0.3	0.6	0.1	0.4
Beverages and tobacco	-2.1	-35.6	-0.2	-25.4	-13.5
Textiles - Raw materials	4.6	-73.6	-3.2	-50.5	-27.7
Textiles - Finished products ex clothing	60.2	-67.7	-0.8	-39.9	-22.5
Textiles - Clothing	5.0	-73.8	-9.0	-53.3	-28.2
Leather and substitutes	3.8	-85.0	-4.5	-59.3	-32.6
Woodworking	-10.1	-26.4	-10.3	-30.9	-18.6
Paper	-8.9	-11.8	2.4	-9.3	-4.7
Printing and related products	33.2	-48.3	-2.9	-28.3	-16.9
Oil- and carbon-related products	2.6	-1.4	15.3	-0.1	-12.0
Chemicals	-6.5	-7.5	1.8	-6.0	-3.1
Plastics and rubber	-11.4	-31.0	-5.2	-28.6	-15.4
Non-metallic mineral goods production	8.9	-38.2	-1.7	-24.8	-13.6
Basic metal industries	2.0	-19.5	-2.0	-16.7	-10.2
Metal-based goods production	-9.0	-35.1	-1.3	-27.3	-14.5
Machinery and equipment	-4.6	-34.8	-9.6	-29.4	-11.6
Computer, communications, electronic, and other hardware	-0.3	-23.0	-1.0	-16.5	-8.7
Electric hardware	-13.5	-11.3	2.0	-10.9	-4.7
Transportation equipment	42.6	-81.8	-21.5	-61.2	-33.0
Furniture, mattresses and blinds	2.8	-60.3	-8.0	-45.3	-25.4
Other manufacturing industries	6.2	-30.3	1.7	-18.0	-10.7

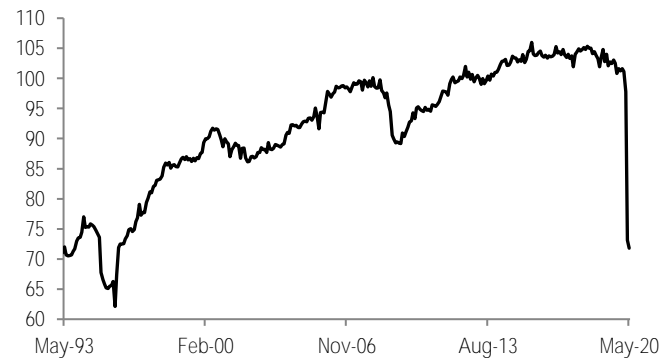
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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