Industrial production – The rebound extends through July, but with mixed signals ahead

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- **Industrial production (July): -11.3% y/y nsa; Banorte: -11.6%; consensus: -12.9% (range: -15.5% to -9.1%); previous: -16.7%**
- **This figure was again better than in the previous month. Year-to-date, industry has declined by 13.7% y/y**
- **Gains extended in monthly terms, up 6.9%, which was slightly above our expectations. In our view, this was supported by additional efforts to reopen the economy along a boost coming mainly from external demand**
- **Mining advanced 0.8%, still dragged by the oil sector (0.0%) on climate disruptions, compensated by non-oil at 8.8%**
- **Construction was up 0.9%. Edification (0.8%) keeps outperforming civil engineering (-0.3%), with public spending in physical investment by the Federal Government falling in annual terms**
- **Manufacturing remains the most positive sector, advancing 11.0% after surging 26.8% in June. Transportation keeps surprising higher, up 25.8%, while most other sectors also improved further**
- **We maintain our view that manufacturing should be relatively stronger in coming months. Nevertheless, and after two months rebounding, signals about the short-term industrial outlook seem more mixed**

Industrial activity improves further in July. The report came in at -11.3% y/y (see Chart 1), above consensus (-12.9%) but virtually in line with our -11.6%. It was also higher than the -16.7% in June despite a relatively more challenging base-effect and less working days. On a year-to-date basis, the sector has declined 13.7% (Table 1). In our view, two main drivers help explain these dynamics: (1) Additional efforts to reopen the economy while still complying with sanitary and distancing measures; and (2) the boost from external demand, mainly of the US. Nonetheless, some idiosyncratic factors are also acting as headwinds. In this respect, we highlight that although mining improved at the margin to -3.1%, the oil sector worsened (-3.4%). On the other hand, construction stood at -23.5% from -26.1% in the previous month, once again mainly on stronger edification. The most positive remains manufacturing, reaching -9.0% (Chart 2). Almost all sectors stayed negative, although with sizable improvements in categories such as textiles (in all its divisions) and electrical equipment. Overall, we believe manufacturing has been more successful in adjusting to the 'new normality', partly because of the possibility of producing without direct contact with clients, but also as demand for their goods has not been as affected, particularly for export-oriented sectors.

Gains extended in monthly terms, led again by manufacturing. Industry grew 6.9% m/m (Chart 3), which we see as positive considering that the rebound in June was 17.9% given the start of the economic reopening. Despite of this, the index is hovering at levels not seen since mid-2009, in the middle of the Great Financial Crisis (Chart 4).

On a more positive note, manufacturing has been the most dynamic sector, up 11.0% in the month. In this sense, it is 7.2% below its level in February, before the pandemic hit and disrupted global supply chains more clearly. Within, we keep highlighting transportation, standing at 25.8%. We believe the recovery is even more significant when considering that autos are durable-goods, which have been affected more strongly given the shift in consumption patterns. Moreover, it is favorable that all sectors except one (oil- and carbon- related products) have remained positive even after June's strong rebound, as shown in Table 2. On the other hand, and in line with our view, construction also improved albeit much more modestly, up 0.9%. Edification (0.8%) remains relatively stronger than civil engineering, with the latter contracting 0.3%. Meanwhile, mining also showed a marginal increase (0.9%), although with the oil sector flat (0.0%) after three months in contraction. Non-oil mining stood at 8.8% after advancing 24.1% in the previous month.

Mixed signals for August. We should mention that it is not surprising that the pace of advance in sequential terms decelerated relative to June, which is a result mainly of a more complicated base effect –remembering that the low in the seasonally adjusted series was in May and that the reopening took place in June. Despite of the latter, more timely indicators have been mixed. Among them, we highlight a relevant retracement in IMEF's PMI manufacturing for August, particularly in the 'new orders' and 'production' components, which were among the hardest hit. After recent gains, auto production contracted 13.2% y/y in said month, significantly below the +0.7% observed in July; meanwhile, disruptions in the oil sector were reported due to hurricane Laura in the Gulf of Mexico at the end of the period. On the contrary, US indicators remain positive, noting that the ISM manufacturing picked up to 56.0%, highest since year-end 2018, with an expansion in demand and optimism, albeit less so than in July. Nevertheless, the report points to certain problems in supply deliveries from abroad (related to Mexican exports, which could have decelerated after recent gains). Moreover, it is important to say that extraordinary fiscal support measures in the US expired in August, which eventually could impact demand for some goods in that country, especially in non-essential categories.

In construction, the environment remains very complicated. The president of the Mexican Construction Chamber (*Cámara Mexicana de la Industria de la Construcción*, or CMIC in Spanish), Eduardo Ramírez, said recently that the *2021 Budget Proposal* was better than they expected, albeit with the sector remaining very weak and with the reopening advancing very slowly. Moreover, he said that the private sector's proposal of viable infrastructure projects –which includes around 264 projects all over the country, with an estimated investment of $370 billion– has not resonated much. In this backdrop, he estimates that the sector's GDP could contract between 15% to 17% this year, accumulating a 21.2% drop up to July. On the other hand, industrial park developers have said that the decision-making process has been slow and cautious, particularly for new projects, despite some signs of a recovery in the logistics sector, and which is likely related to persistently high uncertainty.

In this respect, business confidence in the sector declined at the margin in August, with generalized setbacks and the highest contraction in the 'adequate moment to invest' component. The aggregate trend indicator was better (with original figures), with an increase in all four categories. Nevertheless, and broadly speaking, we expect more modest dynamism relative to manufacturing that will extend in coming months, with difficulties to reverse the downfall on limited demand levels, both in the public and private sectors.

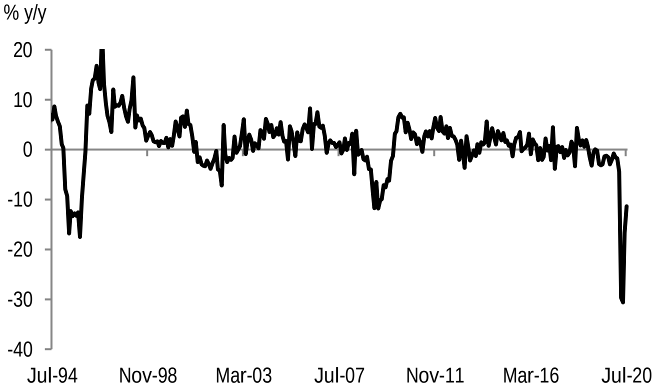
Lastly, we highlight that mobility indicators suggest that we have already reached levels like those observed before the pandemic, with some stagnation of gains in August. In this backdrop, we should also mention that federal entities keep announcing the reopening of more activities, adapting to the 'new normality'. Although most of them are in services, we call attention to some examples such as Mexico City, in which the working week has been extended one more day (Saturday) beginning in September. Although this could be favorable, we think the effect would be modest, anticipating that most activities have already been reopened at the adequate scale to comply with sanitary requirements but also accounting lower levels of aggregate demand.

Table 1: Industrial production
% y/y nsa

	Jul-20	Jul-19	Jan-Jul **'20**	Jan-Jul **'19**
Industrial Production	-11.3	-1.3	-13.7	-1.6
Mining	-3.1	-5.9	-0.4	-6.0
Oil and gas	-3.4	-7.7	1.6	-8.7
Non-oil mining	-3.6	-1.3	-10.0	-2.8
Services related to mining	1.8	2.7	6.7	11.9
Utilities	-8.9	0.2	-5.7	0.0
Electricity	-9.9	0.0	-6.6	-0.3
Water and gas distribution	-4.4	1.3	-2.7	1.0
Construction	-23.5	-8.8	-21.2	-4.6
Edification	-23.3	-7.3	-20.9	-2.8
Civil engineering	-29.4	-4.8	-25.0	-5.8
Specialized works for construction	-17.0	-20.6	-18.0	-12.0
Manufacturing	-9.0	3.3	-15.1	1.0
Food industry	-0.9	4.0	0.8	1.9
Beverages and tobacco	0.1	4.7	-13.6	0.0
Textiles - Raw materials	-38.3	-1.1	-40.9	-3.1
Textiles - Finished products ex clothing	-8.0	-6.0	-22.3	0.1
Textiles - Clothing	-44.4	-0.4	-40.0	-4.9
Leather and substitutes	-39.4	-1.5	-43.4	-3.7
Woodworking	-17.6	0.6	-20.6	2.1
Paper	-8.1	-1.8	-8.9	0.0
Printing and related products	-26.9	-6.4	-20.9	-12.3
Oil- and carbon-related products	-30.6	4.1	-9.1	-7.6
Chemicals	-8.4	1.6	-5.7	-2.0
Plastics and rubber	-11.5	2.4	-17.1	-1.7
Non-metallic mineral goods production	-9.0	1.5	-13.7	-2.6
Basic metal industries	-20.4	-1.7	-13.7	-3.9
Metal-based goods production	-7.7	-3.7	-19.3	-5.9
Machinery and equipment	-23.6	14.6	-24.2	1.4
Computer, communications, electronic, and other hardware	-1.6	7.7	-11.6	7.2
Electric hardware	-1.9	0.6	-6.6	-1.3
Transportation equipment	-9.5	5.9	-32.3	5.1
Furniture, mattresses and blinds	-11.9	-10.5	-26.2	-4.7
Other manufacturing industries	-13.2	-1.3	-13.8	1.8

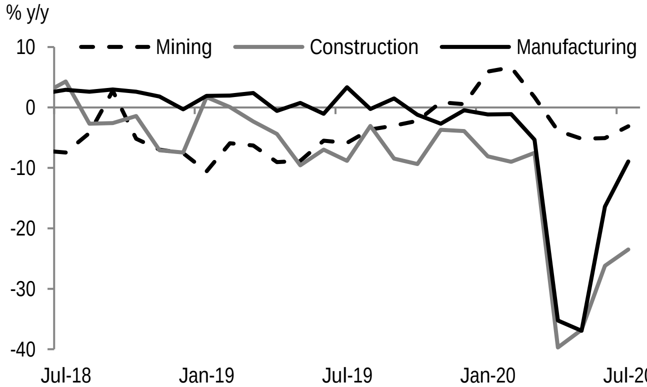
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



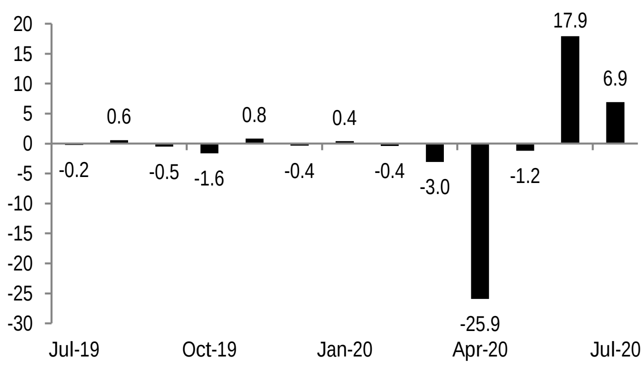
Source: INEGI

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

	% m/m			% 3m/3m	
	Jul-20	Jun-20	May-20	May-Jul'**20**	Apr-Jun'**20**
Industrial Production	6.9	17.9	-1.2	-9.2	-23.9
Mining	0.8	1.4	-1.8	-5.0	-7.5
Oil and gas	0.0	-1.5	-4.2	-5.5	-3.8
Non-oil mining	8.8	24.1	3.4	-4.0	-23.5
Services related to mining	2.7	-6.5	2.7	-1.3	-1.4
Utilities	5.5	0.8	-9.4	-8.6	-8.0
Electricity	7.4	0.6	-11.5	-10.2	-9.0
Water and gas distribution	0.0	1.5	-1.3	-2.6	-4.1
Construction	0.9	17.8	1.0	-16.7	-31.2
Edification	0.8	21.1	5.2	-17.6	-34.7
Civil engineering	-0.3	1.2	-1.6	-13.3	-19.1
Specialized works for construction	1.1	17.5	-6.1	-14.9	-26.0
Manufacturing	11.0	26.8	-0.3	-7.5	-27.2
Food industry	0.9	-0.1	-1.4	-1.6	-1.4
Beverages and tobacco	20.9	35.7	-2.0	-4.7	-29.7
Textiles - Raw materials	27.3	100.6	4.9	-32.9	-64.2
Textiles - Finished products ex clothing	32.8	34.4	58.1	-9.5	-50.4
Textiles - Clothing	36.5	68.4	5.8	-41.5	-68.6
Leather and substitutes	40.7	214.1	3.7	-39.3	-74.4
Woodworking	12.0	27.7	-8.9	-13.0	-30.7
Paper	8.2	5.1	-8.9	-10.4	-14.9
Printing and related products	12.5	-1.5	33.3	-16.3	-38.7
Oil- and carbon-related products	-20.4	0.1	4.4	-0.2	2.2
Chemicals	4.4	4.0	-6.3	-6.7	-9.2
Plastics and rubber	13.1	39.6	-10.8	-11.1	-30.5
Non-metallic mineral goods production	11.0	24.7	8.8	-7.3	-29.8
Basic metal industries	3.6	-2.1	1.4	-13.2	-21.9
Metal-based goods production	27.6	31.5	-8.9	-11.5	-33.8
Machinery and equipment	1.5	39.5	-5.3	-14.8	-32.7
Computer, communications, electronic, and other hardware	9.9	20.7	-0.2	-0.7	-16.5
Electric hardware	20.4	5.3	-13.3	-10.9	-17.5
Transportation equipment	25.8	252.3	43.3	-5.4	-61.5
Furniture, mattresses and blinds	19.6	100.2	2.8	-10.6	-48.8
Other manufacturing industries	8.5	10.0	6.1	-9.1	-24.3

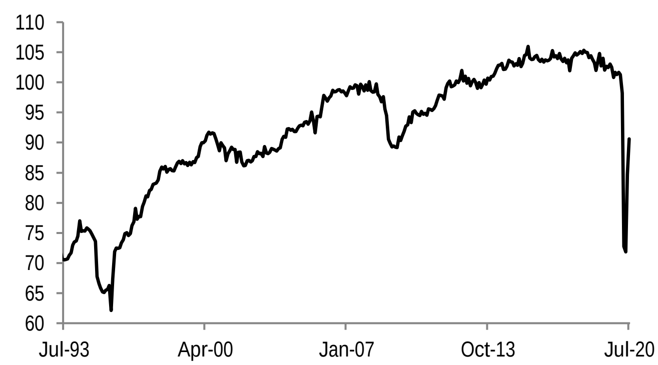
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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