

Industrial production – The recovery continues, albeit with uncertainty going forward

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- **Industrial production (November): -3.7% y/y nsa; Banorte: -4.4%; consensus: -4.2% (range: -5.8% to -1.3%); previous: -3.4%**
- **This print was lower than the previous month, mainly due to a more challenging base effect, although still with some distortions due to the GM strike in 2019. Year-to-date, industry has declined 10.7% y/y**
- **In monthly terms, industry rose +1.1% following the 1.8% acceleration in the previous month. With this, total activity is about 3.4% lower than in February, before the pandemic hit**
- **Mining rose 0.1%, with oil inching lower 0.2% given some climate-related challenges in the period. Non-oil rose 0.6%, largely driving the increase**
- **Construction pushed higher (+2.2%) after the +6.2% seen in October. However, this was entirely driven by edification (+3.3%) more closely related to the private sector. On the contrary, civil engineering was down 1.4%**
- **Manufacturing was unchanged at 0.0% (previous: 1.8%). By industry, 12 out of 21 sectors improved, highlighting electrical equipment (1.4%) and clothing (7.9%). Meanwhile, computers and electrical goods (-1.2%) along oil and carbon (-13.5%) were weaker**
- **Signals ahead are mixed, with the deterioration in epidemiological conditions increasing risks for short-term activity. However, available data seems to suggest some resiliency despite this backdrop**

Industry remains relatively stable in November. The headline came in at -3.7% y/y (see [Chart 1](#)), above consensus (-4.2%), which practically matched our -4.4%. The annual comparison broke five consecutive months of improvements, partly due to a more challenging base effect and a negative calendar given one less working day. Adjusting for this (using seasonally adjusted data), activity fell 3.3% y/y (previous -3.1%). Going back to original figures, construction was stronger, at -7.8% ([Chart 2](#)), despite a seemingly more challenging base, although with most of its impact probably associated more to the structural shift in the sector in November 2018. Mining was weaker at -2.4%, with the oil sector posting the largest setback (-3.2%), still with some adverse climate conditions in Tabasco which may have impacted onshore rigs. Manufacturing also worsened, standing at -2.1%, ([Table 1](#)), with the positive effect from General Motors's strike last year fading away, albeit still somewhat distorted. With these figures, industrial activity accumulates an 10.7% y/y decline in the first eleven months of 2020.

The recovery continues in sequential terms. Industry rose 1.1% m/m ([Chart 3](#)), adding six consecutive months up, following the reopening of the economy. We note that previous month figures were revised downwards slightly, now at 1.8% from 2.0%. We consider the expansion was favorable, especially when considering a more challenging base. In absolute terms, it is similar to levels in mid-2011 ([Chart 4](#)), now about 3.4% lower than in February.

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The upward momentum was mainly driven by the extension higher in construction, at +2.2% after the +6.2% in October. Edification was the sole engine, up 3.3%, with civil engineering down 1.4% ([Table 2](#)). Despite of this, the sector remains as the weakest relative to pre-pandemic levels, almost 8.3% below February. Going into mining (0.1%), oil posted a slight decline (-0.2%) with some disruptions due to adverse weather conditions, also reflected in Pemex's production figures. On the contrary, the non-oil sector was again stronger (0.6%), in our view supported by global demand and a favorable trend in prices due to the expectation of a recovery. On a slightly more negative note, manufacturing was unchanged at 0.0%, albeit only after five straight months strengthening, resulting in a more challenging base effect. By industry, 12 out of 21 sectors improved, highlighting electrical equipment (1.4%) and clothing (7.9%). Meanwhile, computers and electronical goods (-1.2%), along oil and carbon (-13.5%), were weaker.

Mixed signals ahead, with COVID-19 risks still looming large.

Epidemiological conditions kept worsening in December, with additional states from 'orange' to 'red' in the traffic light indicator. States worsening include Mexico City, State of Mexico, Baja California, Guanajuato and Morelos. On the contrary, Chihuahua and Durango improved to 'orange'. In this context, we believe risks for activity are tilted to the downside. However, considering some actions made in some industries –including stricter sanitary measures and the designation of construction, auto production and other key areas as essential–, the impact might be more moderate relative to services.

In this context, indicators are somewhat mixed. Firstly, IMEF's manufacturing PMI posted a 0.2pts decline to 48.7pts. Inside, 'new orders' and 'employment' were higher, while 'production', 'deliveries', and 'inventories' declined, which might be related to additional social distancing measures. More positive though, railway blockades in Michoacán were lifted at the end of November, probably favorable for activity. Data from autos was very strong, with a total output of 254,251 vehicles, representing an 18.4% y/y expansion (previous: +1.4%). As we mentioned above, the sector is benefited by its essential status, but we also note a significant dip in production in 2019, helping explain some of this outperformance.

Meanwhile, signals from abroad are still positive, mainly in the US. Regarding employment, despite an overall loss of 140 thousand jobs in December, there was a net creation of 38k positions in manufacturing. Both the PMI and ISM indices showed an additional uptick, both at their highest since the pandemic started. However, we must warn that 'imports' were a tad lower within the latter, albeit still in expansion. In addition, Congress approved a new stimulus bill, including direct payments to individuals and targeted support to businesses, including the extension of several programs previously authorized that had already expired. The latter, coupled with the expectation of even more stimulus once the new administration takes office –especially as Democrats are most likely to control both houses of Congress–, should boost activity. Nevertheless, there is still uncertainty about the short-term outlook as cases remain on the rise, which might jeopardize some of the recovery.

In mining, the overall impact from the deterioration in epidemiological conditions should be more modest as most states in which said activity is concentrated are not under the strictest conditions. Given the end of the hurricane season as well as an overall improvement in weather conditions, the sector could show some stability. In this context, *Bloomberg* reports that exports of Mexican crude oil rose to a 22-month high in December, despite Pemex still not been able to fully load supertankers due to an accident in July. All in all, we believe the oil sector will probably remain limited by constraints on Pemex's production capabilities, while non-oil could be supported by the global economic recovery.

Finally, indicators for construction also improved, with both business confidence and the aggregate trend indicator inching higher. Inside, gains were more moderate but still persistent across categories, suggesting a positive scenario. On credit, figures remain quite weak, now adding 5 months with a double-digit decline and 26 negative prints in annual terms. More positively, mortgage loans have remained strong relative to other sectors, which might provide some support to residential construction.

All in all, we believe the situation in the short-term remains quite complex, still highly dependent on pandemic conditions. This is very important considering the vaccination plan presented by the Federal Government, which starts with the elderly and progressively vaccinating younger people. In turn, this will probably limit the pace of the recovery in the first half of the year, showing a more significant acceleration until 2H21.

Table 1: Industrial production
% y/y nsa

	Nov-20	Nov-19	Jan-Nov'20	Jan-Nov'19
Industrial Production	-3.7	-2.1	-10.7	-1.7
Mining	-2.4	1.6	-1.0	-4.8
Oil and gas	-3.2	0.4	0.2	-7.8
Non-oil mining	4.6	0.1	-5.3	-3.0
Services related to mining	-13.2	17.8	0.0	17.8
Utilities	-7.0	0.2	-5.4	-0.9
Electricity	-8.4	0.9	-6.1	-0.3
Water and gas distribution	-1.3	-2.6	-2.7	-3.0
Construction	-7.8	-3.9	-17.7	-5.2
Edification	-5.9	1.0	-17.1	-3.0
Civil engineering	-20.9	-16.0	-25.6	-9.5
Specialized works for construction	-3.4	-12.3	-12.0	-10.9
Manufacturing	-2.1	-2.6	-11.0	0.7
Food industry	-2.1	2.8	-0.7	2.4
Beverages and tobacco	3.7	0.9	-8.7	3.4
Textiles - Raw materials	-15.5	-6.3	-32.5	-3.5
Textiles - Finished products ex clothing	-5.6	-12.3	-15.4	-3.2
Textiles - Clothing	-20.9	-9.1	-35.4	-3.2
Leather and substitutes	-21.1	-6.6	-35.5	-2.3
Woodworking	0.3	-0.6	-15.0	-0.1
Paper	-2.3	0.0	-5.7	0.2
Printing and related products	-9.4	-9.0	-18.4	-9.1
Oil- and carbon-related products	-13.5	8.5	-8.7	-3.6
Chemicals	-4.4	-0.4	-5.0	-2.6
Plastics and rubber	-2.0	-5.3	-11.3	-2.8
Non-metallic mineral goods production	0.1	0.2	-8.7	-0.5
Basic metal industries	2.5	-3.4	-9.8	-2.4
Metal-based goods production	0.2	0.2	-11.6	2.8
Machinery and equipment	5.3	-16.8	-18.2	-1.3
Computer, communications, electronic, and other hardware	0.0	-0.9	-7.3	4.9
Electric hardware	8.3	-0.8	-1.7	-1.4
Transportation equipment	-4.2	-7.4	-22.8	1.9
Furniture, mattresses and blinds	-9.2	-3.5	-18.6	-4.1
Other manufacturing industries	-0.8	-6.8	-11.0	-4.5

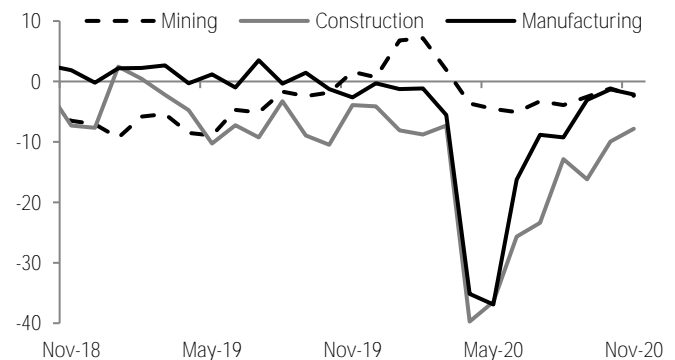
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



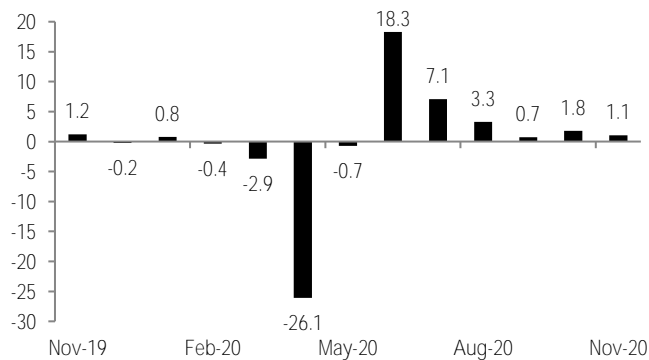
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-20	Oct-20	Sep-20	Sep-Nov'20	Aug-Oct'20
Industrial Production	1.1	1.8	0.7	6.8	15.0
Mining	0.1	1.0	0.3	2.5	3.6
Oil and gas	-0.2	0.4	0.2	1.6	1.4
Non-oil mining	0.6	2.2	1.8	8.4	19.1
Services related to mining	1.7	-3.9	-0.6	-5.2	-7.4
Utilities	-2.3	1.1	-2.8	2.3	7.7
Electricity	-2.9	1.2	-3.6	2.6	9.3
Water and gas distribution	0.0	0.4	0.7	1.8	2.4
Construction	2.2	6.2	-6.0	6.4	16.3
Edification	3.3	9.0	-9.9	6.5	19.4
Civil engineering	-1.4	0.5	-0.6	0.9	2.6
Specialized works for construction	-1.2	0.0	7.8	13.1	20.3
Manufacturing	0.0	1.8	2.1	7.6	18.6
Food industry	-0.2	0.3	1.2	1.1	0.8
Beverages and tobacco	1.4	1.9	-2.1	6.8	24.3
Textiles - Raw materials	0.8	0.3	7.2	27.2	66.2
Textiles - Finished products ex clothing	-1.2	0.1	1.9	10.4	29.5
Textiles - Clothing	7.9	0.3	4.8	29.5	65.9
Leather and substitutes	0.1	7.8	3.3	25.0	73.5
Woodworking	2.3	7.8	-0.2	14.9	28.0
Paper	0.4	0.8	1.4	7.4	12.9
Printing and related products	3.9	-0.8	-1.4	12.5	21.2
Oil- and carbon-related products	-13.5	-0.1	21.9	18.4	12.6
Chemicals	-0.4	1.1	0.2	3.9	6.9
Plastics and rubber	-2.8	2.1	1.2	10.0	27.9
Non-metallic mineral goods production	0.6	1.1	0.9	9.8	22.8
Basic metal industries	-0.1	0.9	11.3	19.2	17.8
Metal-based goods production	-1.0	2.9	0.9	12.6	31.7
Machinery and equipment	0.3	5.6	0.7	9.9	22.8
Computer, communications, electronic, and other hardware	-1.2	0.0	3.4	3.1	10.5
Electric hardware	1.4	0.6	4.0	13.5	21.4
Transportation equipment	0.3	-0.2	5.4	10.7	49.0
Furniture, mattresses and blinds	-2.5	2.3	0.9	9.0	37.7
Other manufacturing industries	2.0	-0.2	1.1	9.5	16.7

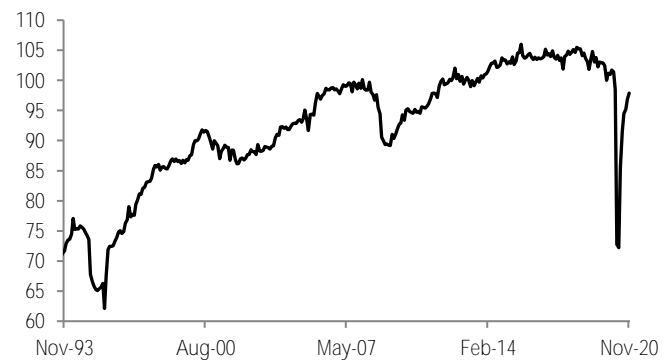
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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