Industrial production – Activity fell 10% in 2020, with good results in December

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- **Industrial production (December): -2.1% y/y nsa; Banorte: -2.4%; consensus: -2.4% (range: -3.4% to 0.0%); previous: -3.8%**
- **This print was higher than the previous month, boosted in part by a positive calendar effect although also with more dynamism despite the deterioration in the pandemic's evolution**
- **With this, IP declined 10.0% y/y in 2020. Inside, construction (-17.2%) and manufacturing (-10.0%) were the most impacted, with mining relatively better at -1.1%**
- **In monthly terms, industry increased 0.1%, marking its seventh improvement in a row since June, when nationwide lockdowns ended. Activity remains around 3.5% below pre-pandemic levels (vs. February 2020)**
- **By sectors, mining took a slight decline of 0.3%. Construction was the most impacted at -2.7%, with a significant payback after a considerable expansion in the last two months. In contrast, manufacturing accelerated, to 1.1%, once again surprising to the upside**
- **Signals ahead remain mixed, with lower mobility levels in January, but with some positive prints in timely indicators. Dynamism should improve in the mid-term, aided by the strength in external demand**

Industry ticks-up in the annual comparison. The headline came in at -2.1% y/y (see Chart 1), slightly higher than our forecast and consensus, both at -2.4%. This was better than INEGI's Timely Indicator of Economic Activity and the print implied within the 4Q20 preliminary GDP report. We note this was boosted by a positive calendar effect, with two more working days in the annual comparison. Adjusting for this, industry declined 3.2% (previous: -3.4%). Back to original figures, manufacturing returned to positive after a little more than a year, at 2.5% (Chart 2). The calendar effect and broader dynamism compensated for a more challenging base effect. On mining (-2.5%), there were not relevant reports of adverse weather conditions, boosting oil and gas output. Lastly, construction was lower at -11.6%, more modest after strong gains in previous months.

With these, industry declined 10.0% y/y in 2020 (Table 1), second worst year since the series is available (1994). The two weakest were construction (-17.2%) and manufacturing (-10.0%), as they were hit the hardest in the peak of the lockdown period, in April-May. However, the latter's rebound has been much better since then, boosted by strength in external demand, with the former still lagging given high domestic uncertainty. Mining was more stable at -1.1%, benefited by continuing operations in the oil sector since the pandemic broke, albeit still limited by idiosyncratic factors. Finally, utilities were affected by lower economic activity, falling 5.3%.

Activity ticks up in sequential terms. Industry rose 0.1% m/m (Chart 3), adding seven consecutive months higher, recovering since the reopening of the economy. We consider the result as positive given the more challenging backdrop in terms of the pandemic's evolution, both in the US and Mexico. As a result, industry is close to levels seen in mid-2011 (Chart 4) and about 3.5% lower than in February.

As has been the case since the reopening, manufacturing keeps doing the heavy lifting in terms of performance, up 1.1% in the period after +0.5% growth in November. Thirteen out of 21 categories were positive (Table 2), highlighting the 8.3% in textiles excluding clothing, 6.2% in electronics, and 1.9% in autos. In our view, these sectors have been supported by: (1) Efficient adaptation in *maquiladoras* to comply with sanitary measures; (2) less uncertainty in the US after the election; and (3) strong relative competitiveness of these goods in the US market. In contrast, we observed a strong contraction in beverages (-7.3%).

On the other hand, construction was the most affected (-2.7%), albeit only after two months of strong growth. Specifically, edification was the weakest (-5.1%) after recent positive surprises. Civil engineering had its second consecutive month of decline, at -1.0%, still showing important challenges. Lastly, mining fell 0.3%, dragged by the strong fall in services related to the sector (-7.1%). Nevertheless, both oil (0.2%) and non-oil (1.1%) were more favorable. In the former, we believe that better climatological conditions helped production. In the latter, we think that it may have been boosted by higher commodities' prices in global markets.

Mixed signs ahead, with heightened COVID-19 risks (again). With today's result, as well as revisions to the previous months, IP declined 3.1% y/y in 4Q20, better than the -3.3% in the preliminary GDP report. Only because of this, total GDP for the quarter would be revised to -4.4% from -4.5%, although with the yearly rate staying at -8.3%. Nevertheless, we need more data on services and agriculture, with special attention on revised figures for INEGI's Timely Indicator of Economic Activity, to be published on February 19th.

Despite an additional deterioration in epidemiological conditions in January –with 13 states in 'red' in the traffic light indicator by the end of the month, representing about 54.3% of national GDP–, timely indicators have been mostly positive. Specifically, IMEF's manufacturing indicator stood in expansion at 50.2pts, with a 1.4pts increase relative to December. Even though most of the improvement was in 'inventories', we believe stronger readings in 'new orders' and 'production' were favorable. Nevertheless, 'deliveries' were lower, in our opinion due to the pandemic, but also hit by new railway blockades in Michoacán that were restarted early in the period.

In contrast, we warn about the auto sector, decelerating after abnormally high prints in December. Specifically, light vehicle production totaled 278,711 units in January, translating into a 15.1% y/y contraction (previous: +18.4%). Moreover, GM announced in early February that it would halt vehicle production in three North American plants (one of them in San Luis Potosí, Mexico) until March given low supplies of semiconductors.

Going to the external sector, signals are much more positive, with PMI and ISM manufacturing indicators in the US still very high. On the latter, the 'imports' component (associated with our exports) showed a 2.2pts increase to 56.8pts, suggesting that the boost from external demand will continue. We also add progress on the budget process in the US, which should allow Democrats –through reconciliation– to approve their US$1.9 billion stimulus package. The latter, in tandem with positive developments on the vaccination front, should contribute to higher activity.

In mining, there were no relevant weather distortions in January, which should be positive for the oil sector. Nevertheless, we had reports of operational difficulties in Pemex. In one, they commented that loading of tankers in the Pajaritos terminal in Veracruz has shown delays of up to three times the average. On the contrary, problems in the *Yúum K'ak' Náab* Floating Production Storage and Offloading (FPSO) unit were solved, allowing supertankers to be fully loaded, which hadn't happened since July. On the non-oil front, commodities prices have continued to recover strongly, which is a good incentive for companies to increase output.

Finally, available data on construction is also favorable, albeit staying more cautious as we saw a similar dynamic in the previous month which contrasted with today's deceleration. Specifically, the aggregate trend indicator added an eighth month higher, while business confidence added a fifth month to the upside. News on public projects are somewhat mixed, with progress in Santa Lucía Airport and the Dos Bocas Refinery, albeit with delays in the Mayan Train due to some judicial challenges. On the private sector we believe that the fact that the sector is still considered as essential should limit the impact.

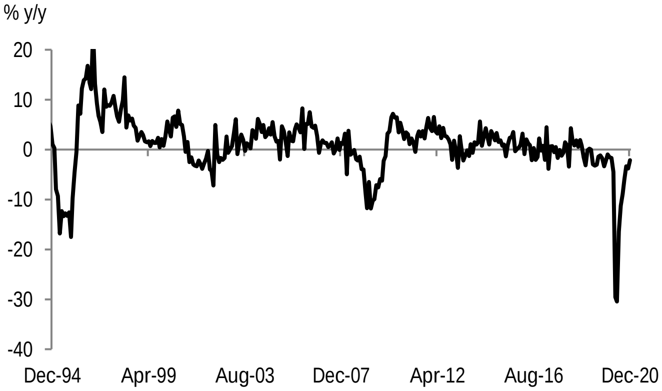
All in all, we still think the situation in the short-term is still very complex, largely dependent on the evolution of the pandemic. However, is seems that at least some key sectors have been able to adapt better to this environment, benefited by not having to rely as much on social interaction. In this context, we still think that the recovery in the first half of the year will remain driven by industry, especially manufacturing, with a relevant boost from the external sector.

Table 1: Industrial production
% y/y nsa

	Dec-20	Dec-19	2020	2019
Industrial Production	-2.1	-1.0	-10.0	-1.7
Mining	-2.5	0.7	-1.1	-4.4
Oil and gas	-3.0	0.1	-0.1	-7.2
Non-oil mining	4.5	-0.2	-4.6	-2.8
Services related to mining	-19.5	12.2	-1.1	17.5
Utilities	-4.5	2.6	-5.3	-0.6
Electricity	-5.6	4.1	-6.0	0.0
Water and gas distribution	-0.7	-2.2	-2.4	-3.0
Construction	-11.6	-4.1	-17.2	-5.2
Edification	-11.5	-2.3	-16.6	-3.0
Civil engineering	-21.8	-11.1	-25.3	-9.7
Specialized works for construction	1.8	-5.0	-11.0	-10.5
Manufacturing	2.5	-0.3	-10.0	0.6
Food industry	1.8	1.6	-0.5	2.3
Beverages and tobacco	-1.8	2.9	-8.1	3.3
Textiles - Raw materials	-0.2	-12.8	-30.5	-4.1
Textiles - Finished products ex clothing	3.6	-10.4	-13.9	-3.7
Textiles - Clothing	-23.0	-4.1	-34.6	-3.2
Leather and substitutes	-19.8	-1.2	-34.4	-2.3
Woodworking	-3.1	7.7	-14.1	0.5
Paper	2.1	-3.1	-5.1	-0.1
Printing and related products	0.6	-8.2	-16.9	-9.0
Oil- and carbon-related products	3.1	9.4	-8.9	-2.6
Chemicals	-2.2	2.2	-4.8	-2.2
Plastics and rubber	9.2	-0.2	-9.7	-2.6
Non-metallic mineral goods production	3.3	3.4	-7.7	-0.2
Basic metal industries	0.0	-2.2	-9.0	-2.4
Metal-based goods production	6.3	2.3	-10.2	2.8
Machinery and equipment	4.3	-6.2	-16.8	-1.7
Computer, communications, electronic, and other hardware	10.0	7.4	-6.1	5.1
Electric hardware	8.2	1.6	-0.9	-1.1
Transportation equipment	6.6	-6.2	-20.9	1.3
Furniture, mattresses and blinds	-7.2	5.9	-17.5	-3.2
Other manufacturing industries	-0.2	-8.8	-10.1	-4.8

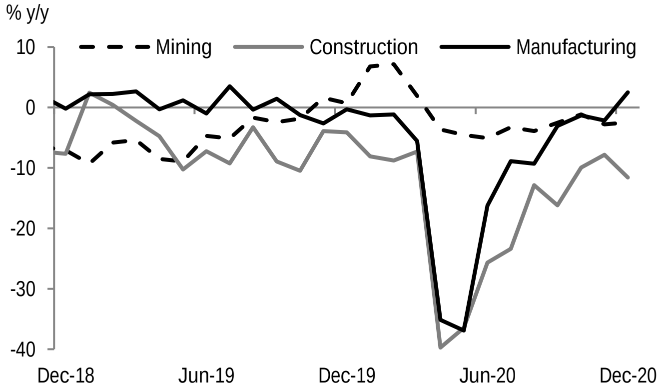
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



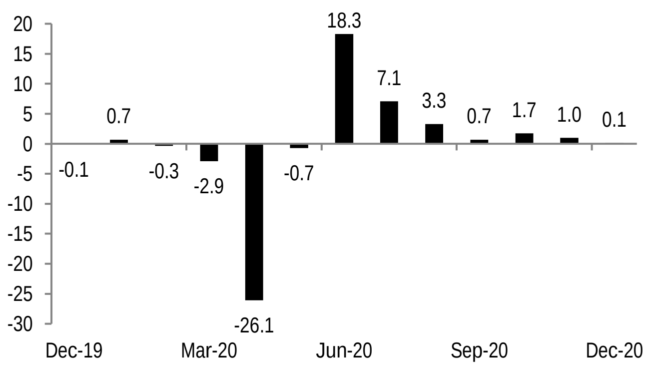
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-20	Nov-20	Oct-20	Oct-Dec'**20**	Sep-Nov'**20**
Industrial Production	0.1	1.0	1.7	4.0	6.7
Mining	-0.3	-0.2	0.9	1.4	2.3
Oil and gas	0.2	-0.1	0.4	1.1	1.6
Non-oil mining	1.1	-0.6	2.5	4.1	7.7
Services related to mining	-7.1	1.0	-4.3	-7.9	-6.0
Utilities	1.7	-2.1	1.1	0.2	2.5
Electricity	2.0	-2.8	1.3	-0.3	2.8
Water and gas distribution	-0.2	0.6	0.4	1.5	1.9
Construction	-2.7	2.7	5.1	5.8	6.1
Edification	-5.1	5.3	8.3	7.5	6.3
Civil engineering	-1.0	-1.7	0.4	-0.7	0.6
Specialized works for construction	3.4	-1.2	0.1	7.9	13.4
Manufacturing	1.1	0.4	1.6	3.9	7.7
Food industry	0.5	-0.2	0.3	0.9	1.1
Beverages and tobacco	-7.3	1.4	1.7	-0.7	6.5
Textiles - Raw materials	8.3	1.5	0.7	14.6	27.9
Textiles - Finished products ex clothing	2.4	-0.5	1.0	3.6	11.5
Textiles - Clothing	-4.5	7.7	0.3	11.5	29.3
Leather and substitutes	-1.0	-0.8	7.8	11.8	24.5
Woodworking	-2.2	2.4	7.9	11.4	15.2
Paper	-0.3	0.3	0.8	3.2	7.4
Printing and related products	4.9	4.1	-0.5	7.8	13.4
Oil- and carbon-related products	17.0	-15.3	-0.6	12.1	18.4
Chemicals	-0.4	-0.4	1.1	1.8	3.9
Plastics and rubber	7.8	-1.9	1.8	6.3	10.4
Non-metallic mineral goods production	1.3	0.7	1.2	5.0	10.0
Basic metal industries	0.3	-0.1	0.9	10.2	19.1
Metal-based goods production	1.8	-1.4	3.7	4.6	13.1
Machinery and equipment	1.5	0.5	5.4	9.0	10.0
Computer, communications, electronic, and other hardware	6.2	-2.0	0.0	1.7	3.3
Electric hardware	-1.9	1.4	0.5	4.6	13.4
Transportation equipment	1.9	0.4	0.0	3.4	10.9
Furniture, mattresses and blinds	0.2	-2.6	2.2	1.8	8.9
Other manufacturing industries	-0.9	2.0	-0.2	3.9	9.5

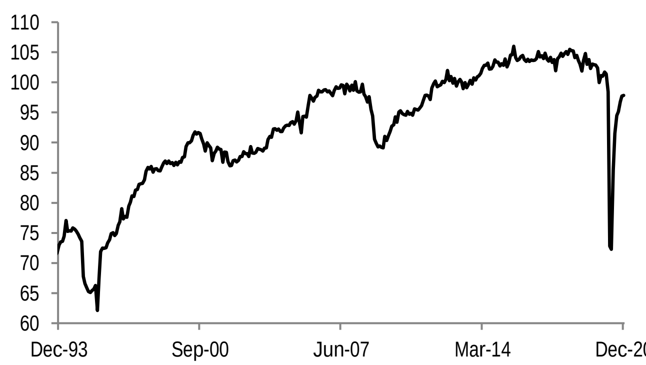
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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