Industrial production – Monthly fall on a more challenging base and with diverging trends

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- **Industrial production (February): 2.5% y/y nsa; Banorte: 3.8%; consensus: 4.2% (range: 2.8% to 7.3%); previous: 4.3%**
- **Sequentially, industry fell 1.0% m/m, dragged by mining at -6.6% (after notable gains in January) and construction at -1.5%. However, and likely benefiting from better epidemiological conditions, manufacturing rose 0.6%**
- **We consider that the performance of manufacturing was underpinned by strong demand in the US, along other favorable trends worldwide. On the other hand, construction is still affected by pressures on input costs, while the fall in mining was caused by the normalization in 'related services'**
- **We believe the sector will likely post a sequential increase in 1Q22. However, risks seem to be increasing, both from continuing price pressures along further disruptions as COVID-19 in China have triggered new lockdowns**

Industry remains positive in annual terms in February. The indicator reached 2.5% y/y (see Chart 1), below both consensus (4.2%) and our estimate (3.8%). Using seasonally adjusted figures, growth was also 2.5% y/y As such, this figure was lower than INEGI's *Timely Indicator of Economic Activity*, at 3.5%. Back to original figures, the acceleration of manufacturing to 6.9% was mostly aided by a base effect, albeit also driven by recent gains. On the other hand, mining fell 2.9%, with some volatile trends inside. Lastly, construction contracted 4.3%, still lagging in the recovery. For further details, please refer to Table 1.

Challenging base in sequential terms, with diverging trends inside. Industry declined 1.0% m/m, (Chart 3). Although most of the result can be attributed to an arithmetic effect, we do note larger differences across sectors, impacted by conditions surrounding the pandemic –and the resulting recovery– along other notable factors, including inflationary pressures. In this sense, epidemiological conditions improved through the month, resulting in lower absenteeism in some sectors and a recovery in employment as a whole. However, price pressures continued, both within CPI and PPI, accelerating in annual terms once again and possibly dampening further progress. Considering this, while some sectors seem to be showing more resiliency, others are quite behind in terms of the recovery. With this, activity stands 1.5% below February 2020, (month used as a pre-pandemic reference) Also, it is 5.5% lower that the historical high in September 2015 (Chart 4).

By sectors, and explaining most of the decline, mining fell 6.6%. As expected, 'related services' backtracked 43.8% after a 29.1% expansion in January –coupled with other notable gains in the previous three months–. In the remaining categories, the oil sector rose 0.5% (better than suggested by early data from CNH and Pemex) and with non-oil at +2.0%, likely supported by the upward trend across several commodities.

Construction fell 1.5%, adding a second month to the downside. While there has been a negative base for 'specialized works', falling 2.6% in the month, performance still largely depends on edification. As such this sector backtracked 0.9%, stringing 6 months of declines and with an accumulated performance of -6.3% in this period. In our view, most of this comes as a result of higher input costs, albeit not ruling out other domestic factors. Lastly, civil engineering fell 4.4%, contrary to our expectation of some support given an acceleration in key government projects.

Meanwhile, manufacturing rose 0.6%, broadly consistent with signs from exports and other soft indicators, such as IMEF's manufacturing PMI. This suggests that a large amount of boost might still be coming from abroad, especially in the US. Inside, 14 out of 21 sectors were higher, better than in the previous month (only 7) as seen in Table 2. To the upside, we highlight increases in metallic goods (+4.9%), beverages and tobacco (+3.7%) and computer and electronic equipment (+2.8%). The latter, seems to be somewhat consistent with some signs of relief across several supply chains. On the other hand, we saw relevant declines in transportation equipment (-3.7%) and textile inputs (-2.6%). Regarding the former, this contrasted with signs from the trade balance and AMIA figures of higher output, still impacted by the lack of semiconductors.

Likely sequential expansion in 1Q22, but with notable risks ahead. Today's figures suggest that while some sectors extended their trend of recovery –mainly manufacturing–, others at best remain stable or are even declining. Despite of the latter, we believe that the sector might post a sequential expansion in 1Q22, considering some timely figures (see sections ahead). However, risks in the medium-term seem to be growing across multiple fronts, possibly dampening some of the strength stemming from the global recovery in the second quarter of the year. Some of these include: (1) Higher prices and lack of some raw materials as a result of the war in Ukraine; (2) new COVID-19 outbreaks in China, impacting industrial centers (*e.g.* Shenzhen and Shanghai); and (3) a reduction in fiscal and monetary stimulus, among others.

Regarding manufacturing, figures for March suggest additional dynamism. In particular, IMEF's manufacturing PMI rose to 52.3pts, with gains in four out of the five subsectors. Meanwhile, *S&P Global*'s PMI report suggests that issues surrounding supply chains continue, while cost pressures seem to be exacerbating. This in turn, may signal that challenges could probably arise as soon as the following months. Signals from abroad are still positive, albeit mixed in terms of the speed. While *S&P Global*'s PMI accelerated to 58.8pts, the ISM moderated to 57.1pts. Despite of the differences, this continues to suggest that the sector remains strong, and should continue having a positive effect in our country. On other domestic data, auto production seems to have accelerated, coming in at 306.0 thousand units –breaking 300k for the first time in a year–. Despite of these signs, in our view, the main risk short-term for the sector is a further deterioration in supply chains, both due to the lack of raw materials as well as an increase in their price. This would be consistent with points (1) and (2) in the previous paragraph. On more structural drivers, we believe the upcoming resolution on the auto sector within USMCA might keep weighing on dynamism, while the reduction in stimulus both here and in the US will likely dampen activity.

In construction, our focus remains on prices, with PPI figures for March pushing higher, reaching 14.1% y/y. This already reflects some of the adjustments as a result of the war in Ukraine and sanctions to Russia, but with the possibility of further increases still quite tangible. As such, this will remain as the main drag for the sector, but in our view, especially for edification. Despite of the print within today's reports, we believe that civil engineering might maintain a favorable trend considering the opening of the Felipe Ángeles Airport in late March, along a push in other fronts ahead of the electoral period (both due to the recall election in April and gubernatorial races later in June).

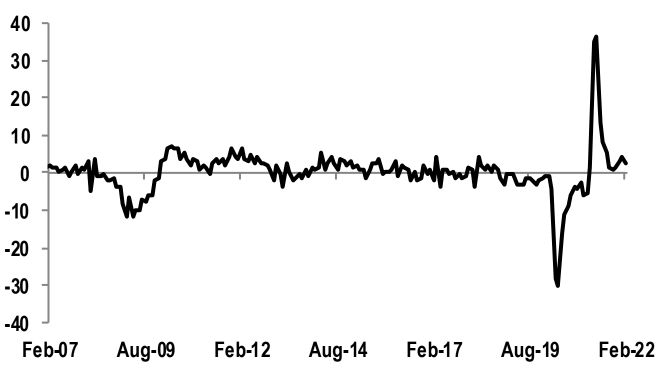
Lastly, mining might remain rather stable, even despite signals from prices. Adjustments could continue in 'services related', which might induce additional declines. However, the non-oil sector could outperform further as some supply voids left by the conflict could be filled, aided further by the increase in commodities. In oil, we await additional information to see if the rise in international references, which will likely result in a larger windfall for Pemex, translates into additional CAPEX.

Table 1: Industrial production
% y/y nsa, % y/y sa

	nsa				sa	
	Feb-22	Feb-21	Jan-Feb'22	Jan-Feb'21	Feb-22	Feb-21
Industrial Production	**2.5**	**-5.2**	**3.4**	**-5.6**	**2.5**	**-3.9**
Mining	**-2.9**	**-2.5**	**4.2**	**-3.2**	**-2.9**	**0.7**
Oil and gas	-1.3	-2.7	-0.2	-2.8	-1.4	-0.1
Non-oil mining	2.3	1.0	1.0	1.9	2.0	4.0
Services related to mining	-22.4	-7.6	31.5	-11.8	-21.2	-6.2
Utilities	**3.9**	**-8.1**	**2.7**	**-5.4**	**4.2**	**-8.0**
Electricity	3.8	-10.3	2.5	-6.7	4.0	-10.1
Water and gas distribution	4.4	-0.8	3.4	-1.0	4.4	-0.8
Construction	**-4.3**	**-5.5**	**-1.9**	**-8.4**	**-4.0**	**-5.9**
Edification	-6.5	-6.0	-4.8	-9.4	-6.4	-6.6
Civil engineering	0.1	-10.4	4.9	-11.8	1.1	-9.9
Specialized works for construction	3.2	1.2	6.2	-0.1	3.8	1.3
Manufacturing	**6.9**	**-5.7**	**5.3**	**-5.3**	**6.9**	**-4.4**
Food industry	4.0	-3.0	3.2	-3.0	4.0	-1.3
Beverages and tobacco	12.5	-2.4	9.0	-0.6	12.5	1.5
Textiles - Raw materials	12.5	-7.6	15.0	-6.9	13.0	-8.4
Textiles - Finished products ex clothing	-2.2	-1.8	-3.3	-3.4	-2.7	1.5
Textiles - Clothing	19.8	-27.0	20.4	-27.6	20.4	-27.1
Leather and substitutes	2.4	-18.7	3.8	-18.5	2.5	-18.9
Woodworking	-0.5	-1.8	4.3	-8.5	-0.4	1.5
Paper	9.8	-4.4	7.7	-3.5	10.0	-1.0
Printing and related products	17.3	2.0	17.0	-6.6	16.8	0.3
Oil- and carbon-related products	19.9	31.7	17.6	20.5	20.1	31.7
Chemicals	8.8	-7.9	5.3	-4.9	8.9	-5.6
Plastics and rubber	8.9	4.7	9.2	4.0	9.0	3.6
Non-metallic mineral goods production	5.4	-1.9	4.3	-1.2	5.3	-2.0
Basic metal industries	3.2	0.4	3.8	-1.9	3.3	0.5
Metal-based goods production	4.2	3.1	1.5	1.9	4.0	6.2
Machinery and equipment	1.6	-6.0	-0.5	-5.1	2.0	-7.0
Computer, communications, electronic, and other hardware	11.1	-0.7	9.2	-4.3	9.8	-0.3
Electric hardware	4.0	9.6	4.3	9.5	4.2	13.6
Transportation equipment	7.4	-18.3	4.1	-14.9	7.5	-19.4
Furniture, mattresses, and blinds	11.9	6.5	7.3	-0.8	10.8	3.5
Other manufacturing industries	5.7	-2.0	6.6	-3.6	5.6	0.5

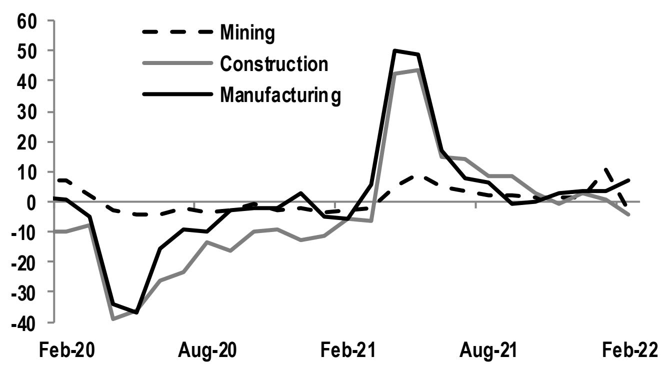
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



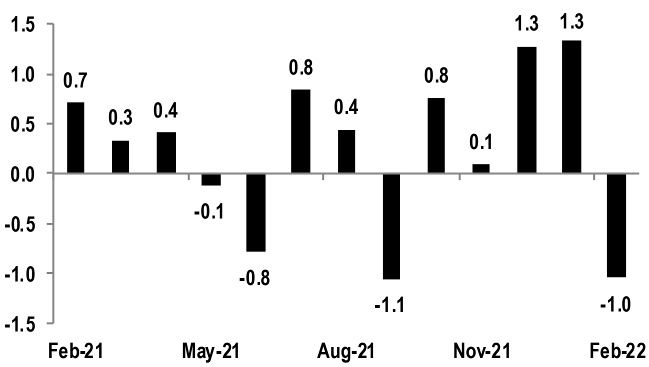
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-22	Jan-22	Dec-21	Dec'21-Feb'22	Oct-Dec'21
Industrial Production	**-1.0**	**1.3**	**1.3**	**2.1**	**1.5**
Mining	**-6.6**	**6.4**	**-0.1**	**2.1**	**2.6**
Oil and gas	0.5	1.3	-0.5	0.7	1.0
Non-oil mining	2.0	0.1	0.0	0.6	0.3
Services related to mining	-43.8	29.1	5.3	7.3	14.3
Utilities	**-0.5**	**0.1**	**2.4**	**2.2**	**1.2**
Electricity	-0.9	-0.1	3.0	2.4	1.2
Water and gas distribution	2.1	0.6	0.2	1.5	0.6
Construction	**-1.5**	**-0.3**	**0.8**	**-1.0**	**-2.0**
Edification	-0.7	-0.6	-0.2	-1.6	-2.7
Civil engineering	-4.4	0.2	-4.0	-6.6	-3.8
Specialized works for construction	-2.6	-3.0	9.3	3.3	1.2
Manufacturing	**0.6**	**0.3**	**2.0**	**3.2**	**2.3**
Food industry	0.9	-0.2	-0.1	0.0	-0.3
Beverages and tobacco	3.7	3.6	-1.9	1.9	0.5
Textiles - Raw materials	-2.6	0.9	0.4	2.2	3.8
Textiles - Finished products ex clothing	2.5	-8.1	8.4	5.8	5.1
Textiles - Clothing	0.4	-8.5	12.5	9.5	9.7
Leather and substitutes	-4.9	5.1	2.8	6.8	4.0
Woodworking	-0.3	-8.2	5.6	-2.4	-3.3
Paper	1.3	-0.9	-0.1	0.2	0.3
Printing and related products	3.6	-1.8	2.8	5.5	7.7
Oil- and carbon-related products	1.7	4.8	-2.3	2.3	5.5
Chemicals	0.9	-3.3	5.9	2.7	1.3
Plastics and rubber	-0.4	2.4	1.2	3.8	2.5
Non-metallic mineral goods production	0.4	-0.6	0.6	1.2	1.9
Basic metal industries	-1.1	-0.1	1.0	0.6	0.9
Metal-based goods production	4.9	-4.7	1.2	-0.3	-1.3
Machinery and equipment	1.9	-7.4	4.1	-1.0	-0.7
Computer, communications, electronic, and other hardware	2.8	4.7	-1.2	5.6	3.3
Electric hardware	0.3	2.8	1.6	2.1	-0.8
Transportation equipment	-3.7	-0.6	10.1	11.5	9.0
Furniture, mattresses and blinds	9.8	-13.3	7.7	-0.6	-0.9
Other manufacturing industries	0.0	-1.1	0.6	1.6	2.4

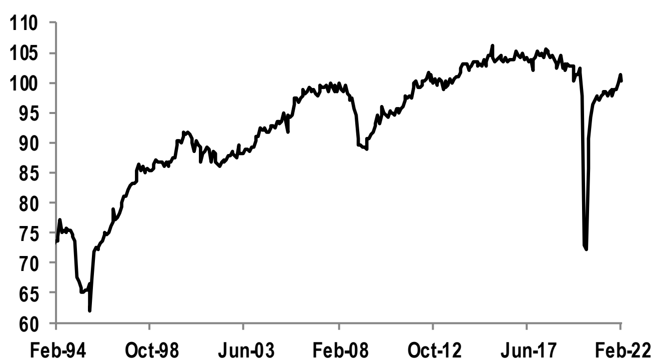
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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