

Ahead of the Curve

We expect a modest contraction in May's industrial production

- Industrial production (May).** We expect IP at 3.0% y/y. The annual figure for this period is skewed upwards due to a difference in working days, with one more relative to 2021. As such, with seasonally adjusted figures we expect a smaller print of 2.8% y/y, which would be below INEGI's estimate in the [Timely Indicator of Economic Activity](#) at 3.3%. More importantly and in sequential terms, we expect -0.1% m/m after expanding 0.6% in the previous month. By sectors, we expect contractions in manufacturing (-0.3%) and mining (-0.7%), partly on more challenging base effects after gains in April, while construction would be more stable (0.0%)

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 12-Jul	7:00am	Industrial production	May	% y/y	<u>3.0</u>	3.2	2.7
		sa		% m/m	<u>-0.1</u>	0.2	0.6
		Mining		% y/y	<u>-1.7</u>	--	0.0
		Utilities		% y/y	<u>2.9</u>	--	2.6
		Construction		% y/y	<u>1.1</u>	--	1.7
		Manufacturing		% y/y	<u>5.2</u>	--	3.9
Tue 12-Jul	10:00am	International reserves	Jul-8	US\$ bn	--	--	198.8
Tue 12-Jul		ANTAD: Same-store sales	June	% y/y in real terms	--	--	3.4

Source: Banorte; Bloomberg

Proceeding in chronological order...

Industry to fall slightly in May, mainly due to a more challenging base. We expect IP at 3.0% y/y. The annual figure for this period is skewed upwards due to a difference in working days, with one more relative to 2021. As such, with seasonally adjusted figures we expect a smaller print of 2.8% y/y, which would be below INEGI's estimate in the [Timely Indicator of Economic Activity](#) at 3.3%. More importantly and in sequential terms, we expect -0.1% m/m after expanding 0.6% in the previous month.

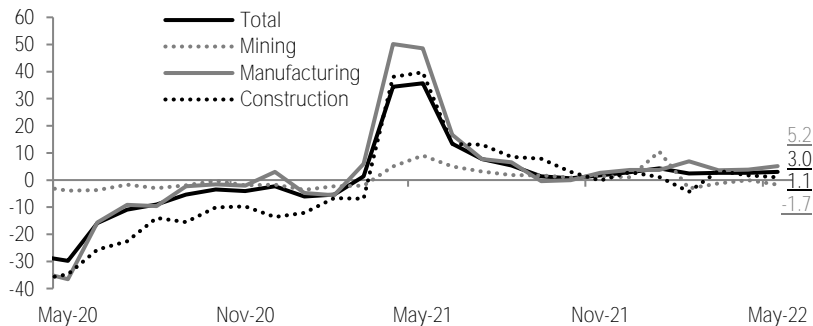
We expect -0.3% m/m in manufacturing (+5.2% y/y), modest considering the previous expansion of 1.2%. Signals so far are mixed, suggesting that dynamism continued despite a difficult backdrop –mainly on external shocks and price pressures–. In general, IMEF's manufacturing PMI fell to 50.8pts, with three out of five categories lower. The PMI indicator for the US (from S&P Global) moderated to 57.0pts. The latter was corroborated by a mild sequential decline in manufacturing output in said country. However, outbound flows from the [trade balance](#) suggested higher production. In particular, manufacturing exports grew 1.4% m/m –with 'others' at +2.0%–. Moreover, auto production reached 275.4 thousand units, which translates into a 5.9% m/m expansion. Meanwhile, there are reports of a reduction in refining output across the country's facilities, which could impact 'oil- and carbon-related manufacturing' again. Lastly, employment added a second month higher (using [INEGI's report](#)), with 39.3 thousand new positions. As such, we believe the slowdown will not come on weakness in the sector, but more so from prevailing supply disruptions and a challenging base effect.

Construction would be stable at 0.0% m/m (1.1% y/y), quite positive after a 5.3% accumulated gain in the last two months. In our view, the main drivers would remain tied to government infrastructure projects –with focus turning to the *Dos Bocas* refinery– and continuing interest in industrial parks. However, housing might remain limited by prices, with PPI for the sector up 16.7% y/y. As such, divergences between business confidence and the aggregate trend indicator remain in place, with the former adding a second month lower while the latter stayed strong. Also consistent with this hypothesis, federal government spending on physical investment was high at 11.6% y/y in real terms.

Mining would fall 0.7% m/m (-1.7% y/y), erasing some of the expansion of the previous month. The sector has been quite volatile though, with 'related services' showing notable swings in the last four months and expecting them to backtrack in May. Meanwhile, oil output recovered slightly, climbing to 1,775 kbdp (previous: 1,767 kbdp), although offset by lower gas production. Lastly, on non-oil mining, flows trade balance flows were higher (+10.8%), despite a moderation in prices, suggesting an increase.

If we are correct, signals about a moderation through 2Q22 would gain momentum, especially after a strong start. This is still consistent with our view of a slower, but positive, growth rate in the period, mostly due to a more challenging base effect and external shocks.

Industrial production
% y/y nsa



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased by US\$262 million, closing at US\$198.8 billion (please refer to the following table). According to Banxico's report, this was explained by a positive valuation effect in institutional assets. Year-to-date, the central bank's international reserves have fallen by US\$3.6 billion.

Banxico's foreign reserve accumulation details
US\$ millions

	2021	Jul 1, 2022	Jul 1, 2022	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	202,399	198,769	262	-3,631
(B) Gross international reserve	207,745	204,247	577	-3,498
Pemex	--	--	0	350
Federal government	--	--	-36	908
Market operations	--	--	0	0
Other	--	--	613	-4,756
(C) Short-term government's liabilities	5,346	5,478	315	132

Source: Banco de México

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmin Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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