Industrial production – Mixed signals in November, suggesting a difficult backdrop

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- **Industrial production (November): 3.2% y/y nsa; Banorte: 2.3%; consensus: 2.8% (range: 2.1% to 3.1%); previous: 3.1%**
- **Industry was unchanged sequentially (0.0% m/m), somewhat positive considering the +0.4% of the previous month. We highlight construction (+0.7%), which added three months of gains, with manufacturing down (-0.5%) and mining very volatile (-0.5%)**
- **These figures are consistent with a moderation in growth at the end of the year, especially due to manufacturing. However, construction has surprised to the upside, helping industry as a whole**
- **In this context, risks from abroad remain on the upside, with uncertainty about both demand –with signs of a US slowdown– and supply –with higher COVID-19 contagions in China. Domestic conditions seem more resilient, aided by an additional moderation in prices**

Industry remains positive in annual terms. The sector increased 3.2% y/y (see Chart 1), higher than consensus (2.8%) and our estimate (2.3%). With seasonally adjusted figures, growth was 2.9%, practically in line with INEGI's estimate in its *Timely Indicator of Economic Activity* (3.0%). Back to the original figures, we highlight utilities (5.2%) and manufacturing (4.6%). However, mining stayed negative (-0.5%) and construction was more stable (1.8%), as seen in Chart 2. For details, see Table 1.

Mixed signals in sequential terms, consistent with more adverse conditions. Industry was unchanged (0.0% m/m), as seen in Chart 3. This is somewhat positive considering October's 0.4% expansion. With this, the sector remains 0.8%% below its February 2020 level (used as a pre-pandemic metric) and still 4.5% lower than its historical high seen in September 2015 (Chart 4).

Inside, manufacturing has not been consolidated a clear recovery, falling 0.5% and unable to add more than two consecutive months to the upside since May. In our opinion, this reflects: (1) Supply chain vulnerabilities, with some sectors (*e.g.* autos) still suffering from shortages; (2) accumulated inflationary pressures –despite a recent easing; and (3) monetary tightening that has led to a more depressed outlook. Timely data was mixed. On one hand, IMEF's manufacturing indicator improved significantly after three months fluctuating around the 50pts threshold. However, its US equivalent stood in contraction, with a second straight decline in November. In the details, 12 out of 21 categories fell in the monthly comparison (Table 2), highlighting chemicals (-4.1%), food items (-1.4%) and electrical equipment (-1.1%). Also noteworthy, transportation was unchanged (0.0%). On the contrary, items with a favorable performance were machinery and equipment (2.2%) –with three months of substantial gains–, oil and carbon (3.9%) and electronic equipment (0.8%).

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Mining fell 0.5%, contrasting with a 1.7% gain in the previous period. This was mainly due to volatility in 'related services' which declined by 2.5%. However, the oil sector was also negative at -0.5%, in line with the CNH oil output report, which contracted during the period. Lastly, the non-oil component was stronger by 0.7%, possibly aided by the price rebound in some metals such as silver, copper and gold.

Construction climbed 0.7%, adding three months higher and with an accumulated gain of 1.9%. While this is positive, we remain cautious on the future trend, considering still high prices and weakened business confidence (with a 10-month decline up to December). Strength centered in civil engineering (4.4%), supported by the development of key infrastructure by the Federal Government. However, edification was more modest at 0.1% –although following a 1.3% increase in October.

Mixed prospects for the beginning of 2023. After November's figures, our call for industry at the end of 2022 is for a slight moderation relative to the third quarter. This is consistent with the prevailing slowdown in US demand for goods relative to services and the statistical effect from the recovery already achieved. On the positive side, a normalization of maritime transportation costs –although with a slight rise in the second half of December–, as well as the relevant fall in energy prices at an international and local level mean less cost pressures for Mexican industry during the last quarter of the previous year.

Nevertheless, US manufacturing has signaled some weakness ahead. Among them, *S&P Global*'s manufacturing PMI stood at 46.2pts at the end of last year –its lowest level since May 2020. Notwithstanding the latter, lower inflationary pressures, stronger consumer confidence –which in December picked up on both the current situation and expectations components– and the labor market recovery could translate into healthy demand for our goods in the short-term. Meanwhile, the situation in China given its reopening and the wave of COVID-19 contagions has mixed effects. In our view, tailwinds to demand –considering a renewed government focus on GDP growth– and the potential normalization of Chinese manufacturing production will be positive for global trade. In contrast, we should also consider that oil and other commodity prices could rise. All in, we believe this news are favorable for the first quarter of 2023.

Domestically, signals have been better. IMEF's manufacturing PMI had a notable rise, contrary to what we saw in other regions. In this sense, we believe that the momentum related to nearshoring may be providing optimism to the sector. In this context, we see positive news for manufacturing, especially for the automotive, electronics, and electrical sectors. Among them, we highlight: (1) The current US proposal to integrate the supply chain of semiconductors in North America; and (2) vehicles and auto parts could be favored directly with new production lines and/or transformations of lines already established to assemble 100% electric vehicles, as in the case of the *General Motors* plant in Ramos Arizpe. On the former, the *Sonora Plan* also contemplates the possibility of supplying lithium batteries to the automotive industry, implying potential investments in the short-term.

Regarding the latter, the industry is poised to continue suffering from the lack of semiconductors in coming months. According to the AMIA, the recovery will continue in 2023, but pre-pandemic production levels could be reached until 2025. Lastly, another positive element is related to a moderation in the cost of companies. In that sense, producer prices ended December lower in sequential terms both for the headline index (-0.19% m/m, with decreases since July) and in secondary activities (-0.60%).

In construction, we anticipate demand for warehouses and industrial parks will be the main driver of the sector. Figures for the end of last year indicate that companies dedicated to the rental of industrial spaces have up to 99% of their supply on a lease, mainly in the North and the Bajío zone, this according to *Finsa's* data (developer of industrial parks in the country), which also estimates that the industrial real estate sector grew 28% y/y during the third quarter of 2022, with the US as the main country of origin, but also with hefty appetite from China. In the public sector, momentum could extend with the completion of the Mayan Train, which according to the federal government, will be concluded this year.

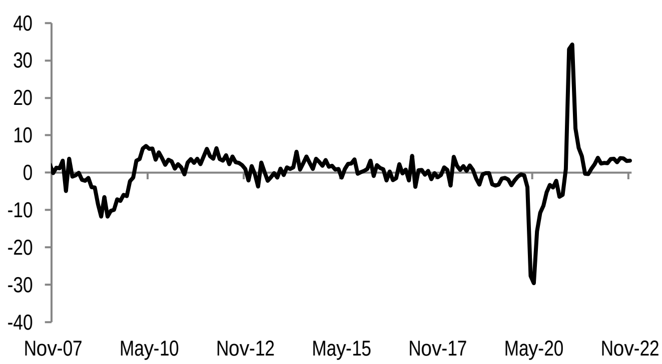
Finally, in mining, we will monitor steel production given the reactivation of steel production by *Altos Hornos de México* –after two weeks without production. Moreover, we anticipate production will benefit as soon as in 2023 due to expansion plans from *ArcelorMittal* (the main producer in the country). The company seeks to increase production by 33% in the medium-term. As we have already mentioned, regional interest in positioning lithium batteries and the development of clean energies is also relevant. Among others, we will follow closely the development of projects such as the new state company for lithium and the construction of a photovoltaic solar park in Puerto Peñasco (investment of US$1.6 billion, which in April 2023 would have its first stage ready).

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

	nsa				sa	
	Nov-22	Nov-21	Jan-Nov'**22**	Jan-Nov'**21**	Nov-22	Nov-21
Industrial Production	3.2	1.0	3.2	5.7	2.9	0.3
Mining	-0.5	-0.2	0.1	0.2	-0.5	-0.3
Oil and gas	-1.4	0.0	-1.2	-0.4	-1.5	0.0
Non-oil mining	-0.6	-3.3	-0.5	6.1	-0.6	-3.4
Services related to mining	9.1	7.9	11.9	-8.3	8.4	7.3
Utilities	5.2	-18.6	3.7	-17.9	5.5	-18.3
Electricity	6.6	-23.9	4.5	-23.0	7.0	-23.4
Water and gas distribution	1.6	-0.5	1.5	0.7	1.5	-0.5
Construction	1.8	1.8	-0.3	8.4	0.8	1.5
Edification	-1.0	-2.6	-2.6	7.9	-2.5	-2.9
Civil engineering	4.3	20.5	0.9	2.4	3.4	19.1
Specialized works for construction	11.7	7.4	8.6	16.5	11.8	7.4
Manufacturing	4.6	2.9	5.5	9.0	4.5	1.5
Food industry	0.2	4.8	2.1	2.5	0.1	3.5
Beverages and tobacco	1.8	5.8	6.6	10.3	1.5	2.6
Textiles - Raw materials	-14.2	26.3	1.4	34.6	-14.2	24.6
Textiles - Finished products ex clothing	-0.1	-0.1	-4.0	11.0	-0.7	-3.4
Textiles - Clothing	-6.6	16.4	7.9	24.0	-5.9	12.9
Leather and substitutes	2.3	1.6	6.2	18.6	1.1	-1.0
Woodworking	-1.3	3.6	-3.5	17.4	-1.4	0.0
Paper	-0.6	8.1	2.7	8.9	-1.3	6.5
Printing and related products	7.0	26.5	12.2	22.7	6.8	25.1
Oil- and carbon-related products	18.6	38.6	15.1	20.3	18.0	37.7
Chemicals	-6.8	2.0	2.5	0.4	-6.3	0.7
Plastics and rubber	-1.7	12.5	4.6	19.5	-0.9	11.7
Non-metallic mineral goods production	0.7	4.7	2.1	12.3	0.5	3.6
Basic metal industries	5.3	3.8	2.7	10.1	5.2	3.8
Metal-based goods production	2.8	4.2	1.6	16.4	2.6	2.6
Machinery and equipment	8.8	8.4	2.9	17.4	6.6	6.7
Computer, communications, electronic, and other hardware	18.8	4.8	15.8	9.2	18.9	3.6
Electric hardware	3.4	6.5	4.1	17.4	3.7	5.1
Transportation equipment	15.0	-11.0	9.5	9.2	14.3	-12.4
Furniture, mattresses, and blinds	-1.6	16.7	0.1	26.3	-1.8	15.5
Other manufacturing industries	-1.8	10.2	3.9	10.9	-1.8	8.8

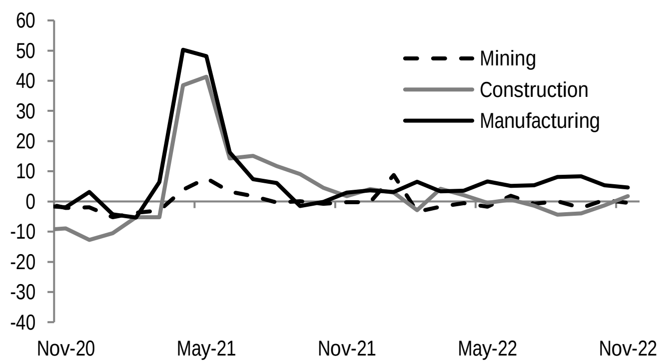
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



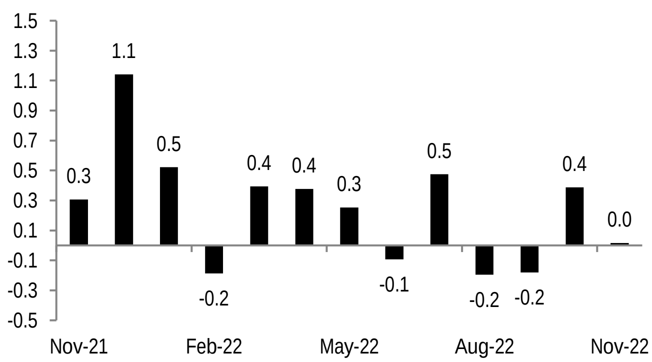
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-22	Oct-22	Sep-22	Sep-Nov'**22**	Aug-Oct'**22**
Industrial Production	0.0	0.4	-0.2	0.1	0.1
Mining	-0.5	1.7	-1.3	-1.1	-1.1
Oil and gas	-0.5	0.5	-1.0	-0.8	-0.5
Non-oil mining	0.7	-0.8	0.3	-0.3	-0.5
Services related to mining	-2.5	15.0	-3.2	-4.1	-7.1
Utilities	0.4	0.1	-1.0	-1.3	-1.6
Electricity	0.4	-0.1	-1.2	-1.8	-2.0
Water and gas distribution	-0.1	0.1	0.0	0.3	0.1
Construction	0.7	1.0	0.2	0.1	-1.3
Edification	0.1	1.3	-0.2	-0.2	-1.3
Civil engineering	4.4	0.6	1.3	1.7	-0.9
Specialized works for construction	1.6	1.1	1.6	1.2	-0.8
Manufacturing	-0.5	0.2	-0.3	-0.1	0.4
Food industry	-1.4	0.1	0.4	-0.5	-0.1
Beverages and tobacco	-1.5	-0.4	1.2	-0.3	-0.1
Textiles - Raw materials	-3.1	-2.3	-3.1	-6.2	-3.6
Textiles - Finished products ex clothing	3.1	-1.5	0.4	0.0	-1.5
Textiles - Clothing	-8.3	-0.4	0.3	-4.8	-0.6
Leather and substitutes	-3.4	-2.5	0.2	-1.6	0.5
Woodworking	1.9	3.8	-1.4	-1.6	-4.6
Paper	-0.1	-1.9	-0.8	-2.2	-2.2
Printing and related products	-2.5	5.9	0.0	4.2	3.6
Oil- and carbon-related products	3.9	11.2	-2.4	11.0	5.7
Chemicals	-4.1	0.5	-1.8	-3.5	-2.3
Plastics and rubber	-3.0	1.1	-2.2	-2.4	-0.7
Non-metallic mineral goods production	0.0	1.3	-0.7	0.6	0.5
Basic metal industries	3.0	1.1	0.4	1.4	-0.8
Metal-based goods production	0.4	0.4	-0.7	-0.3	-0.1
Machinery and equipment	2.2	2.3	4.8	0.2	-5.4
Computer, communications, electronic, and other hardware	0.8	-2.1	2.5	1.6	2.1
Electric hardware	-1.1	0.1	-0.1	0.1	0.1
Transportation equipment	0.0	-0.3	-3.0	-0.1	3.3
Furniture, mattresses and blinds	2.7	-0.9	-1.3	-0.5	-1.4
Other manufacturing industries	-2.2	0.6	-1.1	-0.8	0.5

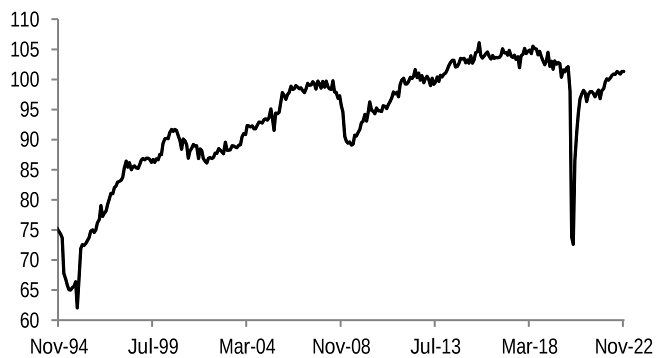
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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