Industrial production – Broad gains in December

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- **Industrial production (December): 3.0% y/y nsa; Banorte: 2.2%; consensus: 2.1% (range: 0.1% to 2.8%); previous: 3.5%**
- **Industry grew 0.7% m/m sequentially, with broad gains. Construction increased 2.7% –adding four months to the upside–, with mining at 1.0%, erasing November's losses. Meanwhile, manufacturing rose 0.5%, boosted by a more favorable base effect**
- **Today's results are positive, especially considering headwinds from abroad –mainly US industry weakness– that have persisted. On the contrary, we highlight construction, which remains favored by high demand on industrial spaces and a moderation in input prices**
- **We believe that some sectors will begin 2023 with positive rates due to a relatively favorable inertial boost. However, we remain on the look to signs from abroad, especially surrounding the reopening in China and US dynamism**

Additional normalization in growth rates at the end of the year. Industry rose 3.0% y/y (see Chart 1), surpassing consensus (2.1%) and our estimate (2.2%). Considering a negative calendar effect –with two less working days–, growth with seasonally adjusted figures was higher at 3.1% y/y, surpassing INEGI's estimate in its *Timely Indicator of Economic Activity* at 1.2%. Back to original figures, construction led the expansion at 5.5%, with manufacturing and mining more modest at 2.7% and 0.9%, respectively (Chart 2). For details, see Table 1.

Better sequential performance, despite persistently challenging conditions. The sector increased 0.7% m/m (Chart 3), with three months higher. As such, production stands 3.5% below its historical high of September 2015 (Chart 4). Inside, construction grew 2.7%, adding four months of gains and with an accumulated expansion of 6.2% in this period. The sector keeps gaining momentum, in our view favored by: (1) Higher demand for industrial parks and warehouses; (2) government spending in infrastructure (*e.g.* Tren Maya and Tren México-Toluca); and (3) a moderation in input prices. Progress focused on 'works related to the sector' at 8.0%, albeit with both edification (1.9%) and civil engineering (1.7%) also improving.

Mining increased 1.0%, still volatile due to 'related services' (+13.4%). On the other hand, oil fell 0.2%, consistent with output figures of the CNH –with a slight expansion in oil, but a contraction in gas. Finally, non-oil was more stable at 0.1%, not ruling out some support given an increase in several prices.

Manufacturing grew 0.5%, barely erasing the loss of the previous month (-0.4%). We believe this is quite positive factoring-in headwinds for this subcategory, including: (1) A negative performance in US output; (2) pressures on land freight transportation within North America due to capacity constraints and shortages related to inventory management; (3) less jobs according to INEGI figures; and (4) an increase, albeit limited, in COVID-19 contagions. Timely data was mixed.

IMEF's manufacturing PMI posted a 0.4pts increase to 51.5pts, boosted by 'production' and 'deliveries'. However, its equivalent metric in the US from *S&PGlobal* remained below the 50pts threshold for a second consecutive month, at 46.2pts. Inside, 13 of the 21 categories increased (Table 2), highlighting machinery and equipment (4.5%), transportation (3.6%) –consistent with AMIA figures– and electronic equipment (3.3%). On the contrary, losses centered on oil and carbon (-10.7%) and the food industry (-1.6%).

Improvements in some subsectors could boost industry at the start of 2023. With today's results, 2022 closes on a positive note. In particular, activity rose 3.2% y/y in 4Q22, better than the preliminary GDP at 3.0%. We believe this sets up industry for a better performance at the start of 2023, identifying some opportunities in at least three key sectors in the short-term: (1) Autos; (2) construction; and (3) solar power generation.

We highlight the performance of the auto sector. China's reopening could be quite favorable in terms of a further normalization in supply chains, which has kept hindering this sector. According to AMIA's director, Odracir Barquera, *"...if a good recovery rate in supply chains is maintained, it is possible that pre-pandemic levels could be reached this year or by 2024 at the latest.*" In this context, the organization indicates that assembly plants were operating at 77% of their installed capacity in January. In addition, investment –both in auto parts and vehicle assembly infrastructure– continues to lead nearshoring efforts. Alberto Bustamante, general director of the *National Auto Parts Industry* (INA, in Spanish) confirms that 37% of investment announcements within the framework of nearshoring are related to the auto parts industry (*e.g.* batteries for electric cars, chassis, transmissions, aluminum wheels), followed by furniture and machinery and equipment.

Regarding construction, timely data has a positive bias. Sector business confidence increased for the first time in January after 10 months of declines. For its part, employment as of December –according to INEGI figures– achieved a two-month pickup despite negative seasonality. Finally, inflationary pressures for the sector have moderated since September, with an accumulated contraction up until December of 2.1%. However, there was a significant monthly increase in January (+2.6%), so attention in this front is still warranted. In this context, we consider that demand for industrial spaces will be the driving force in construction, compensating for weakness in housing. In addition, given the time limit for key government infrastructure projects such as the Mayan Train (end of 2023) and Toluca-Mexico Train, some additional boost may come from them.

Finally, on the energy sector, we highlight the photovoltaic park project in Puerto Peñasco, (the first of five plants) within the framework of the *Sonora Plan*. A first stage is expected to open in April 2023 –with a production capacity of 120 Megawatts–, with the full 1,000 Megawatts output expected in coming years. According to Juan Antonio Fernández Correa, CFE's planning director, total investment in the project will amount to US$1.6 billion (with outlays for the first stage at US$840 million). We believe the development of projects like this one will be key to unlock further investment in the region.

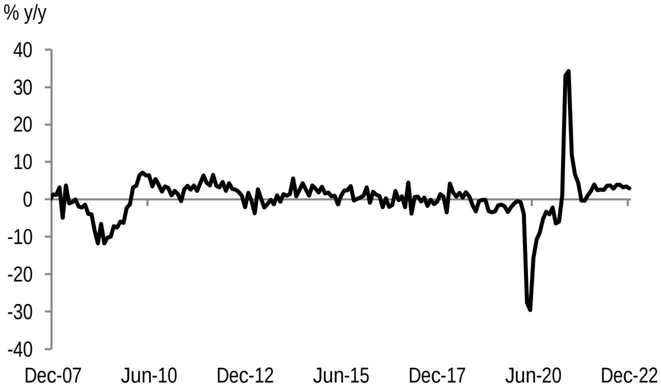
All in all, some bright spots remain domestically despite pressures from external demand. These will be key to support dynamism this year and is a relevant driver behind our 1.5% GDP forecast for 2023.

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

	nsa				sa	
	Dec-22	Dec-21	Jan-**Dec'**22	Jan-Dec'**21**	Dec-22	Dec-21
Industrial Production	3.0	2.2	3.3	5.4	3.1	1.7
Mining	0.9	-0.2	0.2	0.1	0.8	-0.2
Oil and gas	-1.1	-0.9	-1.2	-0.4	-1.2	-1.0
Non-oil mining	-1.1	-3.2	-0.6	5.2	-1.2	-3.5
Services related to mining	32.1	25.3	13.0	-6.9	26.2	19.5
Utilities	2.0	-14.2	3.6	-17.6	1.9	-14.2
Electricity	2.2	-18.6	4.3	-22.7	2.1	-18.7
Water and gas distribution	1.6	0.0	1.5	0.6	1.6	0.0
Construction	5.5	4.1	0.4	8.0	5.5	4.3
Edification	-0.1	1.7	-2.4	7.3	0.2	1.9
Civil engineering	17.8	11.6	4.0	3.2	19.1	13.0
Specialized works for construction	20.5	9.2	9.4	15.9	20.2	8.1
Manufacturing	2.7	3.7	5.2	8.5	3.4	2.8
Food industry	-2.1	3.2	1.7	2.5	-1.6	3.1
Beverages and tobacco	3.4	4.9	6.3	9.8	3.8	6.9
Textiles - Raw materials	-18.8	13.0	-0.1	32.7	-17.6	12.6
Textiles - Finished products ex clothing	-4.2	2.7	-4.0	10.3	-4.8	2.9
Textiles - Clothing	-18.0	32.1	5.7	24.6	-17.2	34.3
Leather and substitutes	1.3	3.3	5.8	17.2	2.9	4.1
Woodworking	-5.1	8.1	-3.8	16.6	-5.6	7.5
Paper	-5.3	7.0	2.0	8.8	-4.7	7.3
Printing and related products	9.5	11.6	11.9	21.6	11.5	11.8
Oil- and carbon-related products	7.2	14.1	14.4	19.7	7.0	13.7
Chemicals	-9.6	8.7	1.4	1.0	-9.0	8.0
Plastics and rubber	1.4	1.5	4.3	17.9	3.0	1.4
Non-metallic mineral goods production	0.7	2.4	2.0	11.4	0.4	2.6
Basic metal industries	6.7	3.7	3.0	9.5	6.5	3.4
Metal-based goods production	-3.3	3.9	1.2	15.3	-1.3	3.1
Machinery and equipment	9.8	8.6	3.4	16.7	11.5	6.1
Computer, communications, electronic, and other hardware	27.9	-3.5	16.7	8.1	26.2	-2.3
Electric hardware	4.0	8.2	4.1	16.6	4.8	8.8
Transportation equipment	9.2	-1.6	9.4	8.3	10.5	-3.0
Furniture, mattresses, and blinds	-19.7	23.1	-1.9	26.0	-17.5	24.1
Other manufacturing industries	-2.1	6.4	3.4	10.5	-0.5	6.7

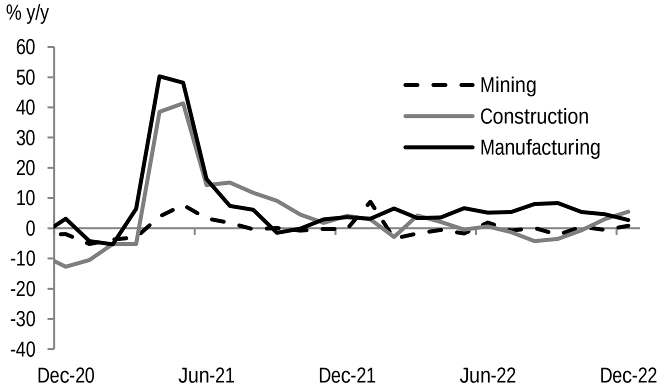
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



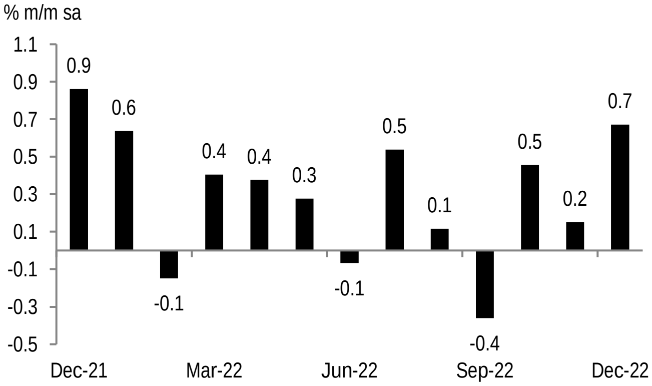
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-22	Nov-22	Oct-22	Oct-Dec**'22**	Sep-Nov**'22**
Industrial Production	0.7	0.2	0.5	0.6	0.3
Mining	1.0	-0.4	1.7	1.0	-1.0
Oil and gas	-0.2	-0.5	0.5	-0.6	-0.8
Non-oil mining	0.1	0.5	-0.8	-0.5	-0.4
Services related to mining	13.4	-1.7	17.1	18.0	-2.0
Utilities	1.0	0.4	0.2	-0.3	-1.3
Electricity	1.0	0.3	-0.1	-0.8	-1.8
Water and gas distribution	0.2	-0.1	0.1	0.4	0.3
Construction	2.7	1.4	1.4	3.3	1.2
Edification	1.9	0.2	1.5	1.7	0.2
Civil engineering	1.7	7.9	1.9	9.6	6.2
Specialized works for construction	8.0	1.9	1.6	7.0	2.2
Manufacturing	0.5	-0.4	0.2	-0.3	-0.1
Food industry	-1.6	-1.0	0.1	-1.1	-0.5
Beverages and tobacco	0.3	-1.6	-0.5	-1.9	-0.4
Textiles - Raw materials	-2.7	-3.3	-2.5	-7.7	-6.4
Textiles - Finished products ex clothing	1.9	3.1	-1.4	-0.5	-0.1
Textiles - Clothing	1.3	-7.7	-0.5	-4.9	-4.7
Leather and substitutes	2.9	-3.8	-2.4	-3.4	-1.4
Woodworking	-1.0	1.7	3.9	2.0	-1.6
Paper	-2.4	-0.3	-2.0	-3.7	-2.5
Printing and related products	1.2	-2.5	5.9	4.4	4.2
Oil- and carbon-related products	-10.7	6.5	11.1	8.9	11.4
Chemicals	2.4	-3.8	0.5	-2.6	-3.4
Plastics and rubber	3.6	-3.3	1.0	-1.3	-2.4
Non-metallic mineral goods production	0.3	0.0	1.2	0.9	0.7
Basic metal industries	1.5	2.7	1.2	3.6	1.4
Metal-based goods production	-1.0	0.3	0.2	-0.9	-0.6
Machinery and equipment	4.5	2.6	2.5	4.6	0.7
Computer, communications, electronic, and other hardware	3.3	0.7	-1.5	1.5	2.3
Electric hardware	1.9	-1.1	0.1	0.3	0.2
Transportation equipment	3.6	0.2	-0.1	-0.1	0.2
Furniture, mattresses, and blinds	-6.6	2.4	-1.2	-3.1	-1.3
Other manufacturing industries	-0.8	-1.9	0.6	-1.5	-0.8

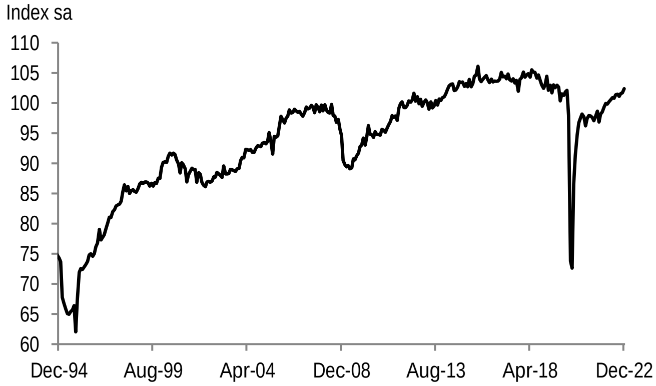
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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