

Industrial production – Very resilient despite temporary shocks

- **Industrial production (February): -4.5% y/y nsa; Banorte: -6.1%; consensus: -5.2% (range: -6.2% to -4.0%); previous: -5.0%**
- **This figure was skewed to the downside due to the leap year in 2020. Moreover, there are signs of an impact from cold weather disruptions that led to electricity shutdowns and natural gas undersupply in several states in north and central Mexico. However, other more shielded sectors were rather strong, ultimately driving performance**
- **In monthly terms, industry expanded 0.4%, adding 9 months with sequential increases. With this, activity stands 3.1% below pre-pandemic levels, exactly one year ago (sa)**
- **The direct impact from disruptions was in utilities, down 3.8% m/m. This also affected manufacturing, which fell 2.1%. In contrast, construction rose 2.5%, with mining also higher at 2.3%, with the latter two sectors much more resilient**
- **We continue seeing industrial strength in coming months despite other supply chain issues that may take some time to be resolved**

Industry posts a positive result despite shocks in February. The headline stood at -4.5% y/y (see [Chart 1](#)), higher than consensus (-5.2%) and our forecast. We should mention that figures are skewed downwards due to the leap year in 2020, resulting in a more challenging base effect. Correcting for this with seasonally adjusted data, the contraction was 3.1% y/y, better than the previous month (-3.7%) and much higher than [INEGI's Timely Indicator of Economic Activity](#) at -4.2%. This also contrasted with our view of a more significant impact from cold weather disruptions in the Northern Border that led to electricity shutdowns and natural gas undersupply in several states in north and central Mexico. The shock in the former started around February 13th, with service fully restored by the 18th. On gas, we had reports of issues at least until the 22nd in some industries, albeit likely with further complications after that. However, some sectors that were more shielded from the impact posted a positive performance. Back to original figures, utilities (where the direct effect from the shock is registered) plunged 9.9%. with manufacturing also hit at -4.7% (see [Chart 2](#)). In contrast, both construction (-4.4%) and mining (-2.5%) were higher than in January. For further details, please refer to [Table 1](#).

Contrasting performance among sectors, with resiliency prevailing. Industry rose 0.4% m/m ([Chart 3](#)). with the headline for January unchanged at 0.2%. As a result, activity added nine months to the upside, starting with the reopening of the economy last June. In our view, while the abovementioned disruptions were a factor, it seems that the main driver is the improvement in epidemiological conditions in the second half of the period, with several activities taking meaningful steps to adapt to sanitary measures.

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Utilities plunged 3.8%, with electricity down 4.7% and water and gas more modest, at -0.1%. In line with our view, manufacturing was affected by this, contracting 2.1%. Specifically, we flag the auto sector at -9.2%, consistent with news of widespread shutdowns and lower finished vehicles according to AMIA. In total, 13 out of 21 subsectors also contracted. Looking at the breakdown, this somewhat differs with the modest advance in ‘other manufacturing’ exports within [the trade balance](#), albeit pointing out that inventory drawdowns likely explain these differences. Other very affected sectors included chemicals (-3.3%) and base metals (-3.1%) as shown in [Table 2](#). In contrast, construction stood at +2.5%, with renewed strength in edification (+3.6%) after moderation last month. Meanwhile, civil engineering showed a slight payback (-0.5%), albeit in our view very positive considering the massive expansion in the previous month. This sector seems to have been mostly left unscathed by the blackouts. Lastly, mining was also higher (2.3%), driven by the oil sector (3.0%). In this respect, it should be recalled that most oil production by Pemex is made in the country’s southern region, which was not as affected by the energy shutdowns. With today’s data, industry is close to levels observed in late 2011 ([Chart 4](#)) and is 3.1% lower than one year ago, exactly the last full month that did not show a meaningful impact from the pandemic.

We are even more optimistic about industry prospects. Considering that we expected a sequential decline in the month on adverse shocks, it is our take that industrial activity is poised for a strong rebound in the year. In this respect, signals ahead remain favorable, supported by strong fundamentals. Among them, March’s ISM manufacturing in the US rebounded to 64.7% from 60.8% in the previous month, a new historical high after ten consecutive months of growth, with a very strong reading in the ‘production’ and ‘new orders’ sub-indexes. The ‘imports’ component also improved, although more modestly. *Markit*’s PMI was also higher, highlighting good results in ‘new orders’. This suggests persistent strength of external demand from the US, boosted by: (1) Strong stimulus measures; (2) better COVID-19 curve dynamics, supporting confidence levels; and (3) a good position of the consumer, with higher savings and less debt than in the previous crisis.

The current backdrop is characterized by vigorous demand that US industry is encountering challenges to satisfy. Specifically, both reports (ISM and PMI) note widespread comments about production delays on the lack of raw materials and other shortages, along the difficulty of finding new workers adequate for the job. This translates in important supply restrictions. It is expected that these will take time to be sorted out (*e.g.* chip scarcity, port congestion to unload cargoes, lack of containers, etc.), limiting performance despite capacity utilization still below levels seen before the pandemic. The greatest risk is that these issues have started to be reflected more strongly in higher input prices, exacerbated by the increase in energy prices. In Mexico, INEGI informed that factories’ capacity utilization reached 78.4% in January (last figure available), stable at the margin, but also slightly below pre-pandemic levels. According to *Markit*, uncertainty remains high and performance was affected by COVID-19 restrictions, as some activities were suspended. Moreover, peso weakness against the dollar in the period was an additional factor that pushed up input prices.

Nevertheless, and contrary to the US, most companies have absorbed them to boost sales and avoid losing market share. In this backdrop, auto production in March totaled 303.5 thousand units, which suggests that some shocks were ironed out, while the annual comparison at +12.5% starts to be distorted by the base effects from the pandemic. Despite a domestic environment that looks more complex, we believe growth could rebound given better local COVID-19 dynamics and the push from abroad.

In construction, aggregate trend indicators and business confidence in March kept improving gradually. Nevertheless, some problems persist. For example, the president of Mexico's Construction Industry Chamber (CMIC, in Spanish), Francisco Javier Solares, reiterated recently his petition that the private sector should be more involved in public works, as they have been displaced by a higher participation of the Army (SEDENA) in priority projects. This comment came after the Minister of Transportation, Jorge Arganis, said that infrastructure development should be done by civil engineers. In this context, we are still waiting for possible announcements of additional public-private investment plans, without ruling out further delays due to the upcoming mid-term elections. On a positive note, latest data suggests that there might be a bigger boost from spending before the mid-term elections –even despite some budget constraints– situation we will be paying close attention to in coming months.

Lastly, in mining, structural problems in the oil sector remain elevated. In this respect, Pemex's presented its five-year business plan for 2021-2025 (released this week), stating that attention to high indebtedness by the company should not be delayed. The company's priority will be to free up funds to gradually pay back debt, limiting their capacity to invest in new fields to boost production. In line with these comments, the Federal government announced recently that the Federal Government will assume the company's debt interest payments in 2021 (for around US\$6 billion), along other measures to help them to address their high financial burden, such as another direct capitalization of close to US\$3.5 billion.

Table 1: Industrial production
% yly nsa

	Feb-21	Feb-20	Jan-Feb'21	Jan-Feb'20
Industrial Production	-4.5	-1.7	-4.8	-1.6
Mining	-2.5	7.1	-3.0	6.9
Oil and gas	-2.7	5.4	-2.9	6.0
Non-oil mining	0.7	7.4	2.4	4.6
Services related to mining	-6.5	17.7	-10.5	15.1
Utilities	-9.9	1.6	-7.4	0.8
Electricity	-12.2	2.3	-9.0	1.2
Water and gas distribution	-1.9	-0.6	-1.9	-0.8
Construction	-4.4	-8.8	-7.3	-8.4
Edification	-5.1	-7.3	-8.7	-7.1
Civil engineering	-7.1	-18.9	-8.0	-18.9
Specialized works for construction	2.4	-5.2	1.0	-3.9
Manufacturing	-4.7	-1.1	-4.0	-1.2
Food industry	-1.5	1.8	-1.4	1.3
Beverages and tobacco	-1.2	-2.3	-0.1	-0.9
Textiles - Raw materials	-6.7	-12.1	-6.0	-14.1
Textiles - Finished products ex clothing	1.9	-2.9	-0.7	-4.1
Textiles - Clothing	-25.9	-3.1	-27.3	-3.4
Leather and substitutes	-19.3	-6.1	-19.0	-4.9
Woodworking	-0.6	-1.7	-7.9	-1.4
Paper	-5.0	-1.3	-4.8	-2.2
Printing and related products	1.9	-0.2	-7.0	1.4
Oil- and carbon-related products	35.6	-19.5	24.4	-6.5
Chemicals	-8.4	0.1	-6.3	-0.9
Plastics and rubber	3.1	-2.6	3.1	-3.4
Non-metallic mineral goods production	-0.7	2.6	0.0	1.9
Basic metal industries	-0.1	-3.9	-0.6	-0.4
Metal-based goods production	2.1	0.2	0.4	-0.4
Machinery and equipment	-4.2	-6.3	-2.8	-9.0
Computer, communications, electronic, and other hardware	6.8	-2.8	7.1	-2.2
Electric hardware	9.1	0.1	9.4	0.9
Transportation equipment	-18.7	-0.5	-15.5	-1.5
Furniture, mattresses and blinds	7.4	-5.3	0.4	-0.6
Other manufacturing industries	-2.1	-3.6	-4.6	-4.7

Source: INEGI

Chart 1: Industrial production
% yly

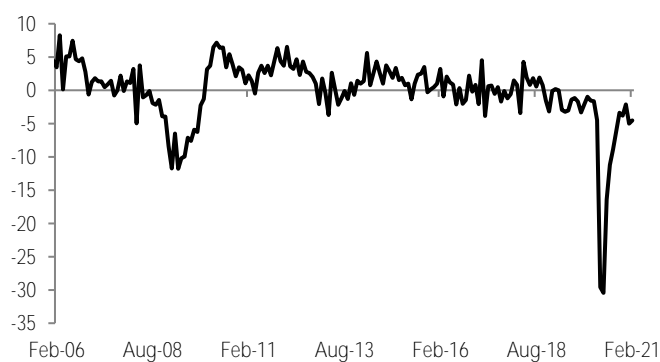


Chart 2: Industrial production by sector
% yly

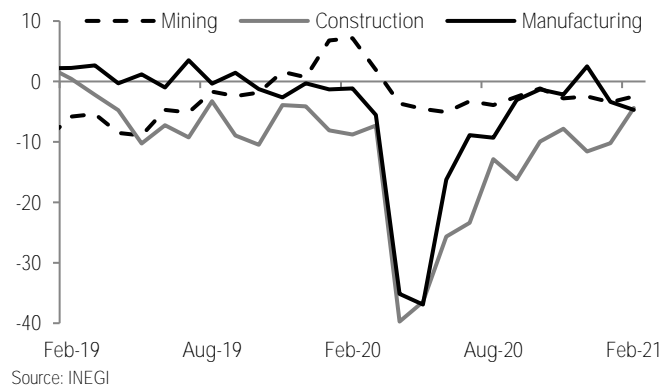
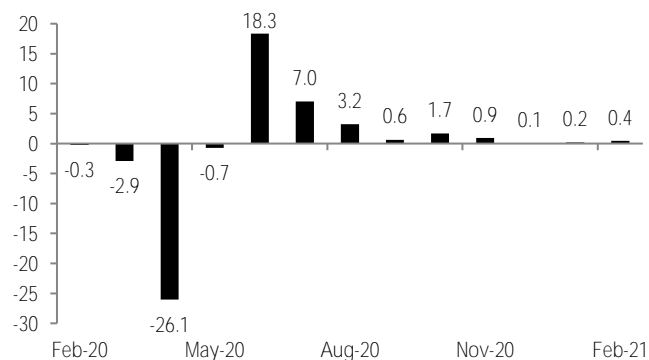


Table 2: Industrial production
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-21	Jan-21	Dec-20	Dec'20-Feb'21	Nov'20-Jan'21
Industrial Production	0.4	0.2	0.1	1.5	2.4
Mining	2.3	1.2	-0.1	1.7	1.1
Oil and gas	3.0	0.3	0.3	1.6	0.7
Non-oil mining	1.4	0.3	1.2	2.4	2.5
Services related to mining	5.9	7.2	-6.3	-0.1	-3.4
Utilities	-3.8	-1.9	1.5	-2.3	-2.2
Electricity	-4.7	-2.1	1.5	-3.0	-3.1
Water and gas distribution	-0.1	-0.4	-0.4	-0.2	0.6
Construction	2.5	1.7	-1.9	3.2	3.2
Edification	3.6	0.5	-4.4	2.7	3.8
Civil engineering	-0.5	12.3	-3.1	5.2	2.8
Specialized works for construction	-0.4	0.4	3.4	2.8	3.8
Manufacturing	-2.1	-1.2	1.4	0.5	2.3
Food industry	0.0	-0.4	0.5	0.2	0.6
Beverages and tobacco	-1.9	6.9	-7.1	-2.2	-1.0
Textiles - Raw materials	-3.0	-2.2	7.7	6.2	8.6
Textiles - Finished products ex clothing	3.1	2.1	2.7	5.4	3.6
Textiles - Clothing	0.1	-1.0	-4.5	-0.3	5.8
Leather and substitutes	-4.6	5.4	-1.0	3.1	6.9
Woodworking	9.8	-7.6	-3.1	-1.3	2.5
Paper	-0.2	-2.0	-0.4	-1.5	0.0
Printing and related products	8.8	-3.4	5.2	8.8	6.2
Oil- and carbon-related products	-1.9	5.2	18.0	8.0	2.4
Chemicals	-3.3	-0.6	-0.5	-2.0	-0.3
Plastics and rubber	-2.4	-3.2	8.5	4.1	3.3
Non-metallic mineral goods production	-1.0	-0.4	1.3	1.5	2.5
Basic metal industries	-3.1	2.1	-0.2	0.7	5.1
Metal-based goods production	0.8	-1.2	1.8	1.4	1.9
Machinery and equipment	-1.2	-0.6	1.4	2.8	5.2
Computer, communications, electronic, and other hardware	-0.3	-1.9	6.8	4.0	3.1
Electric hardware	-1.6	5.4	-2.5	1.7	3.4
Transportation equipment	-9.2	-5.9	3.1	-4.1	1.3
Furniture, mattresses and blinds	3.5	3.0	0.8	3.2	1.1
Other manufacturing industries	3.0	-2.0	-0.9	0.0	1.0

Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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