Industrial production – Broad weakness in September

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- **Industrial production (September): 1.6% y/y nsa; Banorte: 3.2%; consensus: 3.9% (range: 2.6% to 6.0%); previous: 5.5%**
- **Using seasonally adjusted figures, industry grew 1.7% y/y, significantly below the 4.0% from INEGI's *Timely Indicator of Economic Activity***
- **In sequential terms, industry contracted 1.4% m/m after picking up in the two previous months. We highlight the decline in construction (-1.4%) and manufacturing (-1.3%), while mining rebounded modestly (0.1%)**
- **With this, activity stands 4.5% below February 2020, before the start of the pandemic. Performance remains limited by several factors, highlighting supply chains disruptions, transportation delays and higher input prices, mostly impacting manufacturing**
- **Going forward, the sector will continue facing challenges despite healthy demand, with bottlenecks likely extending into 2022**

Industry weakens in September. The indicator reached 1.6% y/y (see Chart 1), below consensus (4.0%), but closer to our 3.2%. There were no important calendar distortions in the period, resulting in 1.7% y/y growth with seasonally adjusted figures. This is lower than INEGI's estimate within the *Timely Indicator of Economic Activity* at 4.0%. By sectors, differences persist, with construction still elevated at 8.3% (Chart 2), closing in on mining (2.0%). Nevertheless, manufacturing fell 0.4% and utilities -3.3%. For further details, please refer to Table 1.

Sequential decline after recent gains. Industry fell 1.4% m/m, weak even after factoring in the 0.6% accumulated increase of the two previous months (Chart 3). This seems consistent with prevailing challenges, including persistent supply chain disruptions, delays in delivery times, and increasing input costs for virtually all subsectors. A factor that may have dampened them is the improvement on pandemic conditions, both globally and locally. With today's result, activity stands 4.5% below February 2020's level, which we use as a pre-pandemic benchmark, on top of being 8.3% lower than the historical high in September 2015 (Chart 4).

Inside, weakness centered in construction (-1.4%) and manufacturing (-1.3%). On the former, edification was behind the fall (-2.8%), with growth in civil engineering (+3.7%) not enough to compensate. Related services came in at -0.1%. Despite the print, we believe it is not yet enough to signal added weakness considering previous gains. Within manufacturing, 9 out of the 21 subsectors were lower, as seen in Table 2. Although effects from bottlenecks are different across categories, this is likely still the main factor behind overall performance. Among the categories with the largest contractions, we highlight computers and other hardware (-9.0%) and transportation equipment (-8.8%). The latter is very concerning after the -1.2% seen in August. In this sense, we consider it remains as the most exposed given reports that semiconductor scarcity will persist.

In contrast, we note oil and carbon (10.3%) and machinery and equipment (1.9%).

Lastly, mining rebounded 0.1%, with oil up 1.8%. This happened in the aftermath of the fire in the *Ku-Maloob-Zaap* oilfield, which impacted output in August. It is also consistent with Pemex's reports of activities resuming at the beginning of the month. Meanwhile, non-oil strengthened (2.4%), while related services were the main drag (-4.9%).

Headwinds persist, likely limiting dynamism for longer. The report reflects the difficult backdrop for industry, with strong limitations for an acceleration despite favorable demand. This is observed in different surveys, such as *Markit*'s PMIs across several regions. Despite strong orders, the lack of supplies –and increasingly, cost pressures– remain as a significant problem. An example is energy, with meaningful scarcity waning in some regions despite less reports of issues in China. On semiconductors, Qualcomm, one of the main manufacturers, announced that they expect their production strategy to relieve part of the lack of components, albeit still short of meeting demand. In this backdrop, the US Department of Commerce requested chip producers to provide all their information about their inventories and supply chain no later than November 8th. Reports suggest most companies delivered the data, although still not known if these will be made public or help alleviate the problem. The 24/7 operation of key ports such as Los Angeles began, although it has been a slow start.

Regarding short-term dynamics in manufacturing, the outlook remains uncertain. IMEF's PMI manufacturing October improved marginally in October to 50.5pts (previous: 49.9pts) with higher 'new orders' and 'production'. On the contrary, railway blockades in Michoacán continued throughout the month, likely having an additional impact on the delivery of raw materials. Further ahead, the recent infrastructure plan approved in the US could support the sector once supply issues are resolved, helping offset lower fiscal stimulus packages. In addition, we will be following closely the approval process of the spending package, which could trigger higher demand in said country and result in a windfall for Mexico.

In mining, were have not known of substantial impacts to Pemex's extractive operations in October. Coupled with a relatively favorable weather, these should favor the sector. On the contrary, there were stoppages in the Tula refinery since September until mid-October. This would be mainly seen in manufacturing –in 'oil and carbon' goods–, not ruling out other modifications in production. On the other hand, most recent comments point that the agreement for the purchase of *Deer Park* could end in December after final authorizations from the US government. This could trigger some adjustments in the export and import profile. In non-oil, metals prices have extended their move higher for a good part of the period, which may have led to higher dynamism.

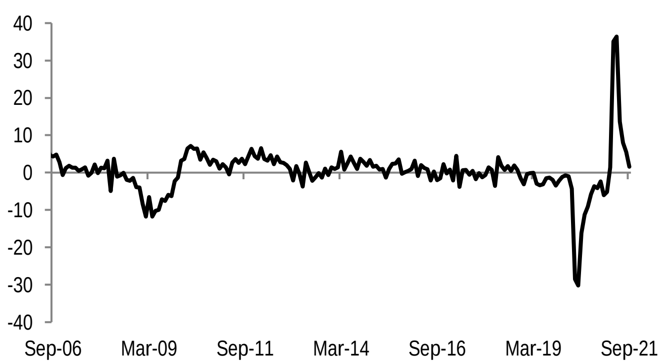
On construction, timely signals from business confidence and aggregate trend indicators remain positive. Reports suggest that appetite for new industrial parks remains very strong. Nevertheless, more companies are reporting an impact from higher raw material prices, delaying the start and execution of some works. Lastly, we remain focused on the final approval of the *2022 Spending Budget* as the original MoF proposal has the largest amount of public spending since 2009.

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

	nsa				sa	
	Sep-21	Sep-20	Jan-Sep'**21**	Jan-Sep'**20**	Sep-21	Sep-20
Industrial Production	1.6	-5.7	8.3	-11.9	1.7	-6.5
Mining	2.0	-2.5	1.8	-0.4	2.0	-2.6
Oil and gas	-0.1	-2.2	-0.3	0.8	-0.1	-2.2
Non-oil mining	4.0	3.1	9.9	-5.7	4.1	3.4
Services related to mining	14.9	-16.4	0.1	2.7	14.4	-17.3
Utilities	-3.3	-5.8	-0.2	-5.6	-3.4	-6.0
Electricity	-4.5	-7.1	-1.0	-6.5	-4.6	-7.4
Water and gas distribution	1.4	0.0	2.6	-1.9	1.5	0.1
Construction	8.3	-15.9	9.2	-19.9	9.2	-16.2
Edification	6.5	-16.8	9.0	-19.5	7.8	-16.2
Civil engineering	17.8	-22.6	0.7	-25.9	16.7	-24.0
Specialized works for construction	8.0	-3.3	18.6	-14.8	8.0	-4.4
Manufacturing	-0.4	-2.6	10.9	-12.5	-0.5	-4.2
Food industry	3.5	1.3	1.6	0.3	3.7	-0.5
Beverages and tobacco	4.3	2.4	12.4	-10.5	4.4	-1.1
Textiles - Raw materials	22.2	-16.3	38.5	-34.7	21.6	-18.2
Textiles - Finished products ex clothing	-3.1	0.6	15.0	-17.2	-1.6	-3.2
Textiles - Clothing	14.2	-28.2	25.9	-36.4	15.3	-30.3
Leather and substitutes	0.7	-22.6	24.9	-37.2	1.9	-25.8
Woodworking	15.7	-5.6	19.9	-15.7	16.9	-8.1
Paper	9.3	-0.1	10.3	-6.2	9.3	-2.2
Printing and related products	18.7	-14.0	19.9	-17.4	18.9	-15.3
Oil- and carbon-related products	18.2	-9.7	16.8	-17.3	17.0	-11.1
Chemicals	2.8	-3.0	-0.3	-3.7	3.0	-4.7
Plastics and rubber	5.0	0.2	21.0	-12.5	4.9	-1.6
Non-metallic mineral goods production	4.6	-2.1	13.8	-11.7	4.3	-3.1
Basic metal industries	4.9	-3.8	12.2	-11.7	4.8	-3.9
Metal-based goods production	5.7	-0.6	21.6	-12.2	5.8	-2.1
Machinery and equipment	17.0	-14.1	20.4	-22.7	16.7	-17.0
Computer, communications, electronic, and other hardware	-12.0	4.5	11.7	-9.9	-12.2	2.9
Electric hardware	7.1	7.9	20.2	-4.2	6.8	6.1
Transportation equipment	-17.7	-5.0	16.4	-26.2	-18.6	-7.5
Furniture, mattresses and blinds	23.5	-5.7	29.9	-21.7	22.4	-7.7
Other manufacturing industries	8.7	-9.0	12.6	-13.1	8.5	-10.5

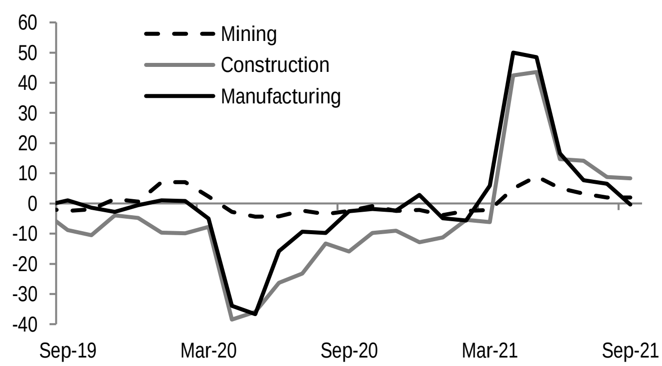
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



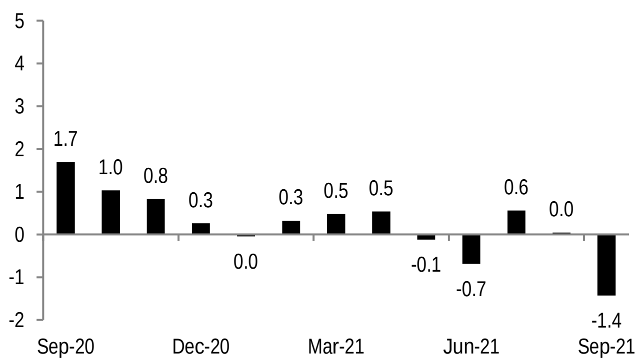
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-21	Aug-21	Jul-21	Jul-Sep'**21**	Jun-Aug'**21**
Industrial Production	-1.4	0.04	0.6	-0.4	-0.2
Mining	0.1	-0.2	-0.4	-0.6	-0.2
Oil and gas	1.8	-2.8	-0.5	-2.2	-1.8
Non-oil mining	2.4	0.3	0.5	2.4	1.7
Services related to mining	-4.9	4.7	4.7	6.0	7.3
Utilities	-1.1	-2.5	1.7	-0.5	-0.1
Electricity	-1.1	-3.7	2.9	-0.2	0.1
Water and gas distribution	-0.4	1.1	-1.2	-0.8	-0.3
Construction	-1.4	1.9	0.7	0.4	-0.3
Edification	-2.8	2.3	1.6	0.6	-0.1
Civil engineering	3.7	3.1	7.4	9.0	2.1
Specialized works for construction	-0.1	2.6	-4.7	-2.7	-0.8
Manufacturing	-1.3	-1.0	1.3	-0.3	-0.1
Food industry	0.0	-0.2	0.5	1.4	2.2
Beverages and tobacco	0.8	1.8	4.7	4.4	1.2
Textiles - Raw materials	-0.7	1.6	1.6	3.7	3.4
Textiles - Finished products ex clothing	0.3	-6.3	5.6	0.1	-2.8
Textiles - Clothing	-2.3	-2.2	4.1	1.1	2.4
Leather and substitutes	-6.9	1.0	1.1	0.2	1.5
Woodworking	-2.0	2.1	3.3	5.0	6.0
Paper	0.2	0.3	0.4	-1.0	1.1
Printing and related products	3.9	0.8	-5.4	-3.3	-2.2
Oil- and carbon-related products	10.3	2.8	5.5	9.1	-6.0
Chemicals	1.0	1.2	2.7	3.9	2.5
Plastics and rubber	-4.1	-0.4	1.5	0.1	1.7
Non-metallic mineral goods production	0.7	1.6	-0.9	-0.2	-1.6
Basic metal industries	0.6	-1.5	1.1	0.8	1.6
Metal-based goods production	-3.7	-1.3	3.6	2.6	2.3
Machinery and equipment	1.9	-1.1	0.8	2.9	1.3
Computer, communications, electronic, and other hardware	-9.0	-5.5	3.9	-2.4	1.2
Electric hardware	-1.4	-0.7	6.4	0.3	-3.1
Transportation equipment	-8.8	-1.2	0.4	-6.0	-4.7
Furniture, mattresses and blinds	5.6	-2.3	1.5	7.7	8.0
Other manufacturing industries	0.0	-0.3	2.1	1.4	2.0

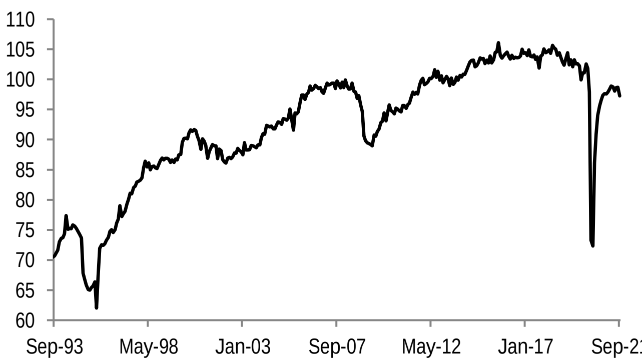
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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