

## Industrial production – Full-year growth of 6.5%, with construction lagging in the recovery

- **Industrial production (December): 3.0% y/y nsa; Banorte: 1.6%; consensus: 2.1% (range: 0.3% to 5.9%); previous: 1.7%**
- **With this, industry grew 6.5% in full-year 2021 after dropping 9.8% in the previous year. Moreover, it is about 2.0% below pre-pandemic levels (February 2020)**
- **Sequentially, performance gathered pace at 1.2%, mostly driven by manufacturing (1.9%). Construction also rebounded (0.8%), while mining lagged (-0.2%) after three months on the upside**
- **While gains were relatively strong, we believe there is still room to improve, especially considering prevailing limits to supply chains and broad price pressures dragging dynamism**
- **We think dynamism in January was impacted by the spread of Omicron which disrupted supply chains again, among other headwinds**

**Industry accelerated in December.** The indicator reached 3.0% y/y (see [Chart 1](#)), higher than consensus (2.1%) and our 1.6% estimate. Using seasonally adjusted figures, growth was lower at 2.4% y/y, with an additional working day boosting original figures. Even so, it was stronger than INEGI's [Timely Indicator of Economic Activity](#), at 0.4%. Back to original figures, construction grew 2.8%, albeit helped by a base effect when compared to the previous month. Mining stood at 1.2% and manufacturing picked up 3.8%. For further details, please refer to [Table 1](#). With today's result, industry grew 6.5% in full-year 2021 after dropping 9.8% in the previous year.

**Sequential growth helped by manufacturing.** Industry grew 1.2% m/m, which is relatively favorable considering improvements in the previous two months ([Chart 3](#)). According to Health Ministry data, the rise of Omicron cases in Mexico was not evident until early January. This was also reflected in the 'traffic light' indicator, which had some of its best levels nationwide in this period since the pandemic started. Nevertheless, we cannot rule out a drag because of problems in other regions, such as China and the US. Moreover, energy prices started to pick up again in mid-December, a situation that has extended to this year and may be an additional headwind. With this result, activity was 2.0% lower than in February 2020, which we still use as a pre-pandemic benchmark. Moreover, it is 5.9% lower than the historical high in September 2015 ([Chart 4](#)).

By sector, manufacturing led the move higher (1.9%). Positive signals were already available in the trade balance. In this sense, 17 out of 21 subsectors were stronger, as seen in [Table 2](#). We highlight transportation, up 10.4% and adding three months higher. This is consistent with AMIA's data on auto production, which accelerated strongly in sequential terms. Also favorable, several textile categories showed relevant increases, such as clothing (12.4%) and final textiles ex. clothing (8.3%). On the downside, we flag a decline in computers, communication equipment and other electronic devices (-2.0%), likely impacted by semiconductor shortages, as well as oil and carbon related production (-2.3%).

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Construction was also stronger, at 0.8%. Nevertheless, it comes only after three consecutive months lower, accumulating a 3.6% decline. Edification remains weak (-0.3%), while civil engineering backtracked 4.0% as previous dynamism seems to have faded in the last three months. In turn, specialized works rebounded 9.4%, explaining the rebound. Overall performance remains muted, in our view. Lastly, mining inched lower (-0.2%), with oil and gas down 0.6%, in line with preliminary data from CNH suggesting lower production at the margin. Non-oil moderated to -0.1%, while related services expanded 2.1%.

**A challenging backdrop for industry remains in place.** Despite picking up in the last month of the year, overall conditions for industry remain difficult. In this sense, reports abound of issues in several fronts due to the acceleration in COVID-19 cases. For example, according to the president of the *Mexican Chamber of the Transformation Industry* (CANACINTRA, in Spanish), Enoch Castellanos, worker absenteeism shot up by 23% because of Omicron. In the same fashion, IMSS and Labor Ministry data showed that slightly less than 315 thousand temporary leave permits for COVID-19 were granted from January 10 to February 3. These permits are issued digitally for a seven-day period in case of being symptomatic, and for 5 days if not. It is also relevant that presenting evidence –such as a positive test– is optional.

In this backdrop, [IMEF's PMI indicators](#) fell below the 50pts threshold, with employment among the most impacted subcomponents in both categories, but with the rest also lower. According to *Markit*, survey participants pointed to a marked deterioration in the health of the sector, with 'production' and 'new orders' contracting at quicker rates. The downturn was driven by raw material shortages and staffing problems due to COVID-19, which also restricted external sales, particularly from the US. On the latter, *Markit's* PMI and the ISM indicator for manufacturing turned lower. Along with this, there was another substantial increase in input costs that was passed to consumers, constituting an additional headwind for the outlook.

In manufacturing, the auto sector is still facing significant problems. First, the shortage of semiconductors remains, with the US administration stating in a report a couple of weeks ago that it will likely stretch at least until 2H22. Moreover, a blockade in Canada's Ambassador Bridge has halted commercial traffic between this country and the US since late Monday. This is the most important land crossing for goods and is crucial for auto parts suppliers and manufacturers. Given the high degree of regional integration in autos, we cannot rule out further complications in sourcing raw materials and managing inventories. In Mexico, companies such as VW halted operations temporarily again, while Nissan closed a plant in the state of Morelos. In addition, concerns remain about proposed tax credits for the production and sale of electric vehicles in the US as part of Biden's *Build Back Better* plan. Although it has faced increasing opposition from Republicans, Democrats are still working to save initiatives aimed at fighting climate change, such as this one, which has already passed the House.

In construction, the heads of the *Mexican Construction Chamber* (CMIC, in Spanish), the *Mexican Association of Real Estate Developers* (ADI), and the *Mexican Chamber of Housing Development and Promotion* (CANADEVI), have said that 2022 will remain challenging as they still face several problems to resume projects. Among them, they highlight: (1) The need to recover demand for offices, shopping centers and residences, as they remain affected by the pandemic; (2) higher costs in raw materials such as steel, cement and other materials, ranging from 30% to 50% on average; and (3) the importance of higher private sector participation in public sector projects.

We recently lowered our [2022 GDP forecast to 2.4% y/y](#). This is still a little above consensus, at 2.2% according to the latest Banxico survey. For industry, we estimate a 2.6% advance after last year's +6.5%. Although positive, it would still not be enough to make up for the 9.8% fall experienced in 2020.

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

	nsa				sa	
	Dec-21	Dec-20	2021	2020	Dec-21	Dec-20
Industrial Production	3.0	-2.3	6.5	-9.8	2.4	-3.6
Mining	1.2	-2.2	1.6	-0.7	1.3	-2.0
Oil and gas	-0.8	-2.9	-0.3	0.0	-0.8	-3.0
Non-oil mining	-0.3	5.4	7.1	-2.9	-0.6	5.0
Services related to mining	36.8	-19.4	4.1	-1.6	38.9	-16.8
Utilities	0.9	-6.2	-0.5	-5.8	0.7	-6.3
Electricity	0.8	-8.0	-1.3	-7.0	0.6	-8.2
Water and gas distribution	1.3	0.1	2.2	-1.3	1.3	0.0
Construction	2.8	-12.8	7.2	-17.6	3.0	-12.9
Edification	-1.1	-12.1	6.0	-17.0	-0.9	-12.6
Civil engineering	12.9	-26.7	4.1	-25.2	14.1	-26.0
Specialized works for construction	13.6	0.7	16.3	-12.0	12.6	-1.4
Manufacturing	3.8	2.8	8.6	-9.6	2.8	0.3
Food industry	1.5	3.2	1.8	0.3	1.6	1.9
Beverages and tobacco	5.2	-1.8	9.8	-7.5	6.7	-3.9
Textiles - Raw materials	12.9	2.5	33.2	-29.5	12.2	0.0
Textiles - Finished products ex clothing	5.2	2.1	10.2	-13.7	5.8	-0.8
Textiles - Clothing	34.5	-22.9	24.6	-33.5	35.1	-24.2
Leather and substitutes	4.2	-19.2	17.2	-33.0	4.6	-22.2
Woodworking	13.3	-2.7	16.5	-12.2	12.7	-5.7
Paper	7.6	2.3	9.6	-4.8	7.8	0.7
Printing and related products	20.6	1.5	20.8	-15.1	19.9	-0.1
Oil- and carbon-related products	16.7	-4.2	19.6	-15.8	16.2	-4.7
Chemicals	7.8	-1.1	0.6	-3.4	7.1	-2.0
Plastics and rubber	1.9	10.0	16.7	-8.6	1.4	7.0
Non-metallic mineral goods production	3.1	3.1	11.0	-8.6	3.4	1.4
Basic metal industries	4.1	1.3	10.0	-8.6	4.1	1.0
Metal-based goods production	5.9	8.8	17.0	-8.2	4.5	5.8
Machinery and equipment	9.6	4.7	16.8	-17.7	8.1	1.4
Computer, communications, electronic, and other hardware	-3.1	5.8	9.8	-8.1	-2.6	3.0
Electric hardware	6.1	6.0	16.2	-1.9	6.8	4.6
Transportation equipment	-0.8	7.4	8.9	-19.7	-1.8	3.1
Furniture, mattresses and blinds	24.7	-6.9	26.0	-17.3	22.9	-8.9
Other manufacturing industries	10.1	-1.6	11.3	-10.7	9.9	-3.4

Source: INEGI

Chart 1: Industrial production  
% y/y

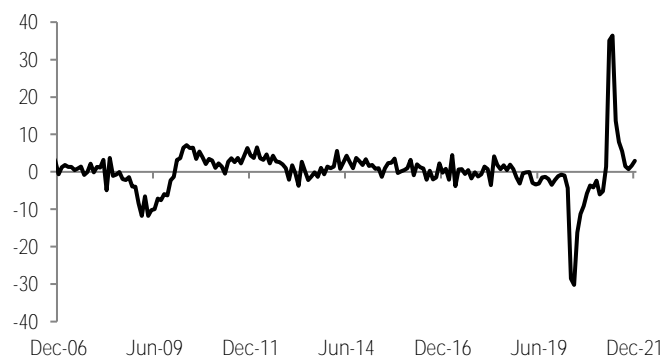


Chart 2: Industrial production by sector  
% y/y

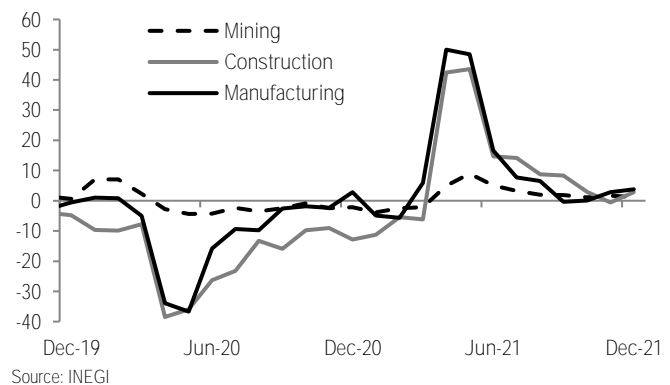
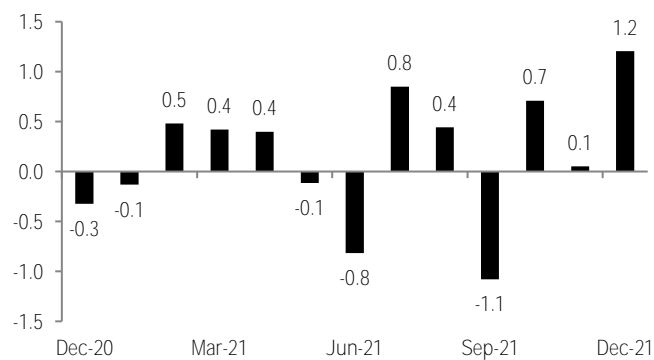


Table 2: Industrial production  
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-21	Nov-21	Oct-21	Oct-Dec'21	Sep-Nov'21
Industrial Production	1.2	0.1	0.7	0.6	0.0
Mining	-0.2	0.3	0.2	0.3	0.0
Oil and gas	-0.6	0.1	0.1	0.2	-0.2
Non-oil mining	-0.1	0.3	-1.1	0.3	1.5
Services related to mining	2.1	3.0	-0.1	1.0	1.0
Utilities	2.4	-0.9	1.4	-0.4	-2.1
Electricity	3.0	-1.2	1.6	-0.7	-2.7
Water and gas distribution	0.1	-0.1	0.5	0.5	0.2
Construction	0.8	-0.7	-1.4	-2.1	-1.5
Edification	-0.3	-0.3	-1.4	-3.2	-2.6
Civil engineering	-4.0	-1.4	-1.7	-0.6	6.3
Specialized works for construction	9.4	-4.5	1.2	2.9	0.5
Manufacturing	1.9	0.1	2.0	1.2	-0.5
Food industry	0.0	-0.2	0.0	-0.2	-0.1
Beverages and tobacco	-1.6	-0.2	-0.2	0.2	3.3
Textiles - Raw materials	0.2	2.9	0.8	3.3	3.1
Textiles - Finished products ex clothing	8.3	7.2	-6.6	-1.6	-4.5
Textiles - Clothing	12.4	3.4	2.9	7.3	0.8
Leather and substitutes	1.8	4.2	-2.2	-2.9	-5.3
Woodworking	4.4	-2.5	-0.1	-1.2	-0.8
Paper	0.0	1.2	-0.8	0.3	0.6
Printing and related products	2.8	1.7	4.9	10.7	7.3
Oil- and carbon-related products	-2.3	-0.6	3.8	10.7	17.1
Chemicals	5.9	-1.5	-0.2	1.8	2.1
Plastics and rubber	0.9	-0.1	2.9	0.3	-1.8
Non-metallic mineral goods production	0.6	1.3	0.4	2.6	2.4
Basic metal industries	1.0	0.0	0.2	0.4	0.0
Metal-based goods production	1.3	-0.3	1.7	-0.8	-2.1
Machinery and equipment	3.5	0.4	-1.9	0.2	0.0
Computer, communications, electronic, and other hardware	-2.0	-1.9	10.4	-0.7	-6.0
Electric hardware	1.2	-1.8	-0.7	-2.9	-1.3
Transportation equipment	10.4	0.8	7.5	4.6	-4.6
Furniture, mattresses and blinds	5.4	-1.5	-2.0	1.5	2.5
Other manufacturing industries	0.6	3.8	-1.9	0.8	0.6

Source: INEGI

Chart 3: Industrial production  
% m/m sa



Source: INEGI

Chart 4: Industrial production  
Index sa



Source: INEGI

## Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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