Industrial production – Resiliency amid a more challenging backdrop in January

- **Industrial production (January): 4.3% y/y nsa; Banorte: 2.0%; consensus: 2.2% (range: 0.7% to 3.1%); previous: 3.0%**
- **Sequentially, industry rose 1.0% m/m which is quite positive considering a more challenging backdrop. Inside, strength was explained by mining (+7.0%) and manufacturing (+0.3%), although partially offset by construction (-0.2%)**
- **Despite a favorable result, we believe caution is still warranted as dynamism was centered in just a few sectors. Meanwhile, signals of a broader impact from supply restrictions and the spread of the 'Omicron' variant were evident**
- **Going forward, growth is likely to continue in the short term. However, medium-term risks have risen due to Russian's invasion of Ukraine, further impacting commodities prices and supply chains**

Industry accelerates in annual terms in January. The indicator reached 4.3% y/y (see Chart 1), much higher than consensus (2.2%) and our 2.0% estimate. Using seasonally adjusted figures, growth was 4.3% y/y, which despite an additional working day, is impacted by other calendar effects. This was better than INEGI's *Timely Indicator of Economic Activity*, at 2.1%. Back to original figures, it stands out that construction (0.7%) was lower than in previous month. On the other hand, mining (10.6%) accelerated, with manufacturing unchanged (3.8%). For further details, please refer to Table 1.

Sequential increase, driven by mining. Industry rose 1.0% m/m, in our opinion strong considering +1.3% of the previous month (Chart 3) and a more challenging backdrop. We expected more weakness due to the spread of 'Omicron' since the beginning of the year, which resulted in a new high of daily infections in the middle of the month (January 19th), although moderating with some speed after that date. We saw lower mobility due to self-imposed confinements and an increase in work absenteeism. Moreover, prices pressures continued in January, both to consumers and producers –with a rate of 9.8% y/y for the headline and 12.5% y/y for secondary activities–. Nevertheless, some sectors seem to be showing more resiliency –and in some cases, outright strength–, helping the overall figure. With this, activity stands 0.6% below February 2020, which we still use as a pre-pandemic reference. Also, it is 4.7% lower that the historical high in September 2015 (Chart 4).

By sectors, mining concentrated most of the dynamism, up 7.0% m/m. Specifically, related services were the main driver as they expanded 21.8%. However, we remain wary about the overall signal given that this category tends to be volatile and might erase gains rather soon. Meanwhile, the oil sector accelerated 1.3%, consistent with higher output figures, while non-oil fell 0.4%, adding two months lower.

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Manufacturing was also positive at 0.3%, contrasting with timelier signals (*e.g.* IMEF indicators, trade balance). Nevertheless, performance inside was mixed, with only 8 out of the 21 subsectors better, as seen in Table 2. Out of these we highlight electronical (+4.3%) and electric equipment (+2.4%), favorable as the former managed to return to pre-pandemic levels. Meanwhile, autos fell 0.7%, quite modest considering the +10.2% of the previous month and some disruptions to the sector amid protests by Canadian truck drivers which impacted the flow of supplies in the region. Lastly, categories with notable declines included textiles ex. clothing (-8.7%), machinery and equipment (-7.6%) and metallic goods (-4.8%), among others.

Construction was lower at -0.2%. Edification remained weak at -0.5%, adding five months lower. Meanwhile, civil engineering rose 1.1%, in our view related to a push in key priority projects. Lastly, specialized works suffered some payback as they declined 3.2%. As such, signals from the sector keep pointing to persistent challenges.

Mixed outlook for industry, with additional downside risks. Both globally and locally, virus infections moderated throughout February and so far in March, which we believe is favorable for a greater reactivation of industry. Currently, 31 of the 32 states are already at 'green' in the traffic light indicator, which should boost mobility and domestic demand. Despite this, it seems that cost issues continued, with timely data for February still showing elevated pressures. However, with the eventual invasion of Ukraine by Russia, risks have increased due to several challenges, including: (1) An increase of energy and raw materials prices; (2) new supply chain bottlenecks; and (3) increased uncertainty for both producers and consumers. Thus, we believe the impact could be started to be seen more clearly in March, with the possibility of a moderate rebound in February.

Specifically, available data for the second month of the year is favorable at the margin. In general, reports of absenteeism decreased. IMEF's PMIs improved, especially manufacturing, reaching 50.9pts and higher across all components. Meanwhile, *Markit*'s report for our country also increased, with details showing marginal improvements in categories such as production and new orders, although with price pressures still weighing. The latter is similar to what has been seen globally, with the same firm quoting a higher rate of expansion due to the reactivation of demand, although with limitations on the supply side due to lack of materials and worker shortages. In the auto sector, the lack of semiconductors is expected to continue affecting the production chain, with at least VW implementing another technical stoppage in the month. Despite of this, vehicle production came in at 240.5 thousand units (8.0% m/m), suggesting a positive outlook. Meanwhile, signs from the US are positive, with gains in both the *Markit*'s PMI and ISM indicators for manufacturing. In the former, producers reported some relief in supply conditions, as well as increases in production, which could be positive for our country.

Also, in the US, Congress approved a US$1.5 trillion spending package. Although this does not include many of the items of President Biden's *Build Back Better* plan, it does imply an important step to advance the agenda on certain fronts and may provide some stimulus to the economy.

Regarding the controversy surrounding the auto sector within USMCA, the final deliberation is expected until September this year, which could continue to be a drag at the margin given the implied uncertainty.

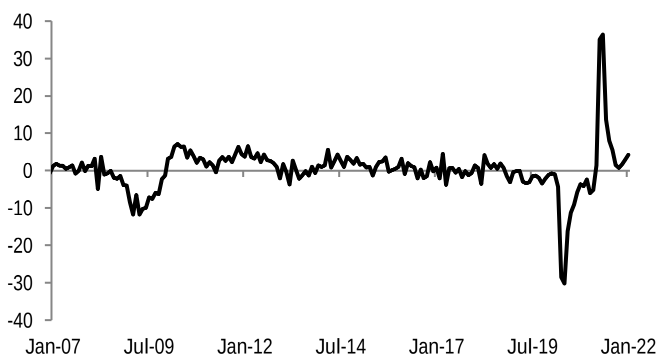
In construction, costs keep rising. According to PPI figures for February, the increase in this sector was 13.4% y/y. Thus, we think this may continue to be a challenge, especially for edification. In addition, another issue could be greater central bank restriction, possibly impacting mortgage loans and, therefore, housing demand. On the other hand, we believe the public sector could maintain some dynamism both in the short- and medium-term. More immediately, given the date set for the inauguration of the Felipe Ángeles Airport (March 21st), related works will gain considerable dynamism, with anecdotal evidence supporting this. After this, and considering a planned increase in infrastructure spending, some dynamism could continue.Finally, we believe non-oil mining could continue to be supported by high prices, especially considering the current backdrop. Given the US ban on crude oil imports from Russia, the opportunity to increase oil production and exports exists, particularly in a context of high prices. In this sense, Pemex officials mentioned that the plan to reduce shipments is currently suspended to take advantage of this situation. However, we continue to believe that challenges remain due to the ongoing financial challenges for the state-owned company.

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

	nsa				sa	
	Jan-22	Jan-21	2021	2020	Jan-22	Jan-21
Industrial Production	4.3	-6.0	6.5	-9.8	4.3	-5.0
Mining	10.6	-3.8	1.6	-0.7	10.1	-4.4
Oil and gas	0.8	-2.9	-0.3	0.0	0.7	-3.1
Non-oil mining	-0.3	2.7	7.1	-2.9	-0.4	2.5
Services related to mining	68.5	-14.5	4.1	-1.6	67.1	-15.5
Utilities	1.1	-2.7	-0.5	-5.8	1.2	-2.6
Electricity	0.7	-3.1	-1.3	-7.0	0.8	-3.0
Water and gas distribution	2.3	-1.1	2.2	-1.3	2.3	-1.1
Construction	0.7	-11.2	7.2	-17.6	1.1	-11.1
Edification	-2.9	-12.9	6.0	-17.0	-2.1	-12.8
Civil engineering	12.4	-13.2	4.1	-25.2	12.8	-12.2
Specialized works for construction	7.8	-1.4	16.3	-12.0	7.4	-0.4
Manufacturing	3.8	-4.9	8.6	-9.6	4.0	-2.8
Food industry	2.6	-3.0	1.8	0.3	3.0	-1.4
Beverages and tobacco	5.8	1.1	9.8	-7.5	4.5	3.0
Textiles - Raw materials	17.5	-6.1	33.2	-29.5	17.0	-3.4
Textiles - Finished products ex clothing	-4.7	-4.8	10.2	-13.7	-4.3	-3.4
Textiles - Clothing	21.0	-28.2	24.6	-33.5	21.8	-26.0
Leather and substitutes	5.5	-18.4	17.2	-33.0	5.1	-16.5
Woodworking	9.7	-14.4	16.5	-12.2	11.5	-11.6
Paper	5.7	-2.6	9.6	-4.8	6.5	-0.6
Printing and related products	16.7	-14.0	20.8	-15.1	16.9	-11.1
Oil- and carbon-related products	15.5	11.6	19.6	-15.8	14.7	10.8
Chemicals	2.1	-2.0	0.6	-3.4	2.2	-0.3
Plastics and rubber	9.4	3.3	16.7	-8.6	8.7	6.2
Non-metallic mineral goods production	3.4	-0.6	11.0	-8.6	3.3	0.7
Basic metal industries	4.4	-4.0	10.0	-8.6	3.9	-4.4
Metal-based goods production	-0.8	0.9	17.0	-8.2	-1.0	5.0
Machinery and equipment	-2.6	-4.3	16.8	-17.7	-0.8	-0.2
Computer, communications, electronic, and other hardware	7.0	-7.5	9.8	-8.1	4.4	-7.9
Electric hardware	4.6	9.4	16.2	-1.9	4.0	11.6
Transportation equipment	1.1	-11.5	8.9	-19.7	1.8	-7.9
Furniture, mattresses and blinds	2.4	-7.5	26.0	-17.3	3.5	-4.0
Other manufacturing industries	7.6	-5.2	11.3	-10.7	7.8	-2.1

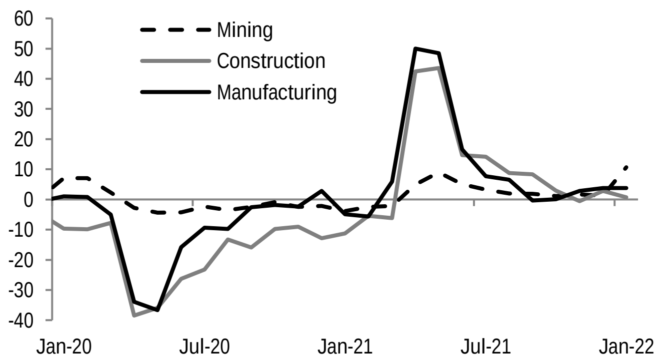
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



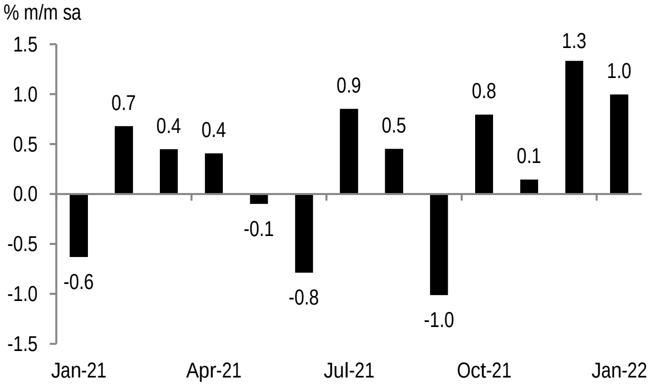
Source: INEGI

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

	% m/m			% 3m/3m	
	Jan-22	Dec-21	Nov-21	**Nov'21**-Jan'**2**2	Oct-Dec'**21**
Industrial Production	1.0	1.3	0.1	1.6	0.8
Mining	7.0	-0.6	0.5	2.9	0.7
Oil and gas	1.3	-0.6	0.2	1.0	0.4
Non-oil mining	-0.1	-0.1	0.3	0.0	0.3
Services related to mining	21.8	7.7	4.2	16.4	5.1
Utilities	-0.2	2.4	-0.9	1.1	-0.3
Electricity	-0.4	3.0	-1.1	1.2	-0.7
Water and gas distribution	0.2	0.1	-0.1	0.2	0.5
Construction	-0.2	0.8	-0.7	-1.6	-2.1
Edification	-0.5	-0.2	-0.3	-2.6	-3.2
Civil engineering	1.1	-2.6	-0.9	-2.1	0.5
Specialized works for construction	-3.2	9.4	-4.5	1.4	2.8
Manufacturing	0.3	2.0	0.1	2.2	1.2
Food industry	-0.1	-0.1	-0.2	-0.3	-0.3
Beverages and tobacco	3.0	-1.8	0.2	0.1	0.5
Textiles - Raw materials	0.8	0.7	3.0	4.4	3.7
Textiles - Finished products ex clothing	-8.7	8.6	7.3	5.0	-2.2
Textiles - Clothing	-8.4	12.5	3.2	9.7	7.0
Leather and substitutes	4.4	3.1	4.3	4.0	-2.2
Woodworking	-6.6	4.5	-2.6	-3.1	-1.8
Paper	-1.0	-0.1	1.1	0.2	0.1
Printing and related products	-1.9	2.7	1.5	7.5	10.3
Oil- and carbon-related products	4.8	-2.3	-0.5	5.5	10.9
Chemicals	-4.2	5.8	-1.4	1.0	1.8
Plastics and rubber	2.4	1.2	0.1	2.5	0.9
Non-metallic mineral goods production	-0.6	0.6	1.3	2.0	2.5
Basic metal industries	0.0	1.0	0.0	1.0	0.4
Metal-based goods production	-4.8	1.5	-0.3	-1.3	-1.3
Machinery and equipment	-7.6	3.0	0.3	-1.3	-0.5
Computer, communications, electronic, and other hardware	4.3	-1.8	-1.4	2.2	0.1
Electric hardware	2.7	1.6	-1.9	-0.8	-2.6
Transportation equipment	-0.7	10.2	0.8	9.2	4.6
Furniture, mattresses and blinds	-11.9	8.1	-1.7	-0.4	2.0
Other manufacturing industries	-1.1	0.6	3.7	2.4	0.7

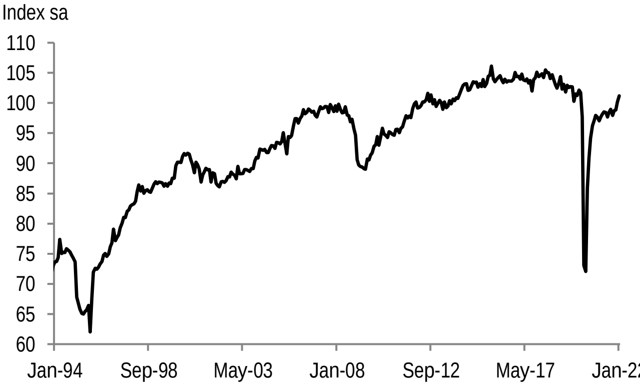
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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