Industrial production – Positive surprise in April, fueled by mining and manufacturing

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- **Industrial production (April): 2.7% y/y nsa; Banorte: 1.4%; consensus: 1.6% (range: 0.5% to 2.3%); previous: 2.7%**
- **Sequentially, industry rose 0.6% m/m. Performance was quite positive, with strength in mining and manufacturing at +1.4% and +1.2%, respectively. Construction was more modest, but still favorable at +0.5%**
- **External demand remains as the main driver for manufacturing, with little evidence so far of an impact from additional supply chain disruptions and higher prices**
- **In our view, industry in 2Q22 could be limited to some extent by trade problems (especially, Chinese lockdowns) and price pressures. Hence, we believe dynamism in manufacturing will be key to maintain positive rates**

Industry keeps growing in April. The sector increased 2.7% y/y (see Chart 1), higher than both consensus (1.6%) and our estimate (1.4%). There is a distortion inserted by the timing of the *Easter* holiday. Correcting for this with seasonally adjusted figures, it was +2.9% y/y, higher than estimated by INEGI's *Timely Indicator of Economic Activity* (2.5%). By sectors, and back to original data, manufacturing maintained a high rate at +3.9% y/y, with construction up 1.7%. Lastly, mining came in at 0.0% (see Chart 2). For details, please see Table 1.

Sequential expansion, with widespread strength. Industry rose 0.6% m/m (Chart 3). With this, it stands 0.7% below February 2020, and -4.5% vs. its historical high in September 2015 (Chart 4). However, the recovery so far this year has been 1.2%. In our view, this is very positive considering that global industry continues facing problems because of production chains –due to delays in the time to fill orders, shortages, and higher prices in supplies, increases in freight rates and port closures, among others–, disturbing all industrial sectors to a different extent.

By sectors, we highlight manufacturing at +1.2%, more than offsetting losses of the previous month (-0.2%). This was better than timely data, which showed a mixed behavior. Within the trade balance, manufacturing exports fell, dragged by autos (-1.4%) but 'others' picked up (+0.5%). Meanwhile, intermediate imports (5.4%) matched the growth of the subcomponent more closely. Relevant sentiment indicators, such as IMEF's manufacturing PMI, business confidence and the US PMI improved. In this context, 15 out of 21 sectors were positive, as seen in Table 2. Importantly, the auto sector added a second month higher at +1.2%, contrasting with earlier data. Meanwhile, some of the relevant outperformers include electronic (4.1%) and electrical goods (4.1%), along oil and carbon-related manufacturing (4.1%). On the contrary, there were key declines in textiles, mainly clothing (-3.0%) and final goods excluding clothing (-1.3%). However, we must warn that volatility remains high across some sectors, which we believe remains tied to challenges regarding inventory management and other problems stemming from supply chain issues.

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Mining also rose, quite positive at +1.4%. However, it failed to offset the losses of the previous two months. Despite high crude oil and gas prices, the *National Hydrocarbons Commission* reported that production fell marginally vs the last period, consistent with the 0.7% contraction in oil mining within this report. Meanwhile, non-oil mining fell 0.1%. We believe this is partially explained by a marginal decrease in prices. Finally, 'services' came in at +40.2%, quite volatile and likely backtracking next month.

Lastly, construction increased 0.5%, high considering the +4.8% seen in March, contrasting with a moderation in the sector's business confidence. Both edification (0.7%) and 'specialized works' (2.4%) were higher, building up on progress from the previous month. However, civil engineering fell 4.8%. Within the latter, most of the fall is likely because of the slowdown in works of the *Felipe Ángeles International Airport*, officially inaugurated in the previous month.

Higher short-term risks, with manufacturing key for further dynamism. In our view, industrial production will remain impacted by shocks related to the war in Ukraine, specifically through energy. In addition, effects from China's zero-COVID policy –which tightened mainly in April– may well end up showing between May and June, considering lags in transportation, inventory, and production cycles. Hence, local industry will likely continue to be affected by supply shocks (*e.g.* delivery times and input costs). This is hinted by INEGI's manufacturing orders indicator in May, in which the only item with a sequential dip and below the expansion threshold is the one related to suppliers. More positively, remaining components maintained their positive trend and expanded in the period, highlighting strength in production and orders. IMEF's manufacturing PMI is consistent with production trends and reflects volatility in inventories. In our opinion, this suggests that manufacturing will continue as the main industry driver in 2Q22 despite disruptions, supported by external demand.

Inside, non-auto manufacturing will probably be better in the short and medium-term, considering production stabilization times according to auto sector executives. According to AMIA, vehicle production is still below pre-pandemic levels. Furthermore, various factories cut their production goals or had to implement technical stoppages in May due to lack of supplies. In contrast, non-auto builders could benefit from new projects such as the opening of plants or new assembly lines to cover national and regional demand (*e.g.* Hiesen, Herman Miller, Helvex and Scania), as well as investments in the maquiladora industry value chain. It should be noted that a common factor in these projects is the country's competitive advantage in labor costs and proximity to the final buyer (the US) vs Asian nations.

In construction, the outlook remains challenging. In Public sector civil engineering projects (*e.g.* Dos Bocas, Tren Maya) will be able to contribute to growth and employment. In edification, higher input prices (centered on diesel, steel, and cement) are reflected in the sector's business confidence, which declined for a third month as 4 of its 5 components were lower. We believe residential will continue to be the weakest, while the construction of warehouses and industrial plants may be the key for growth considering industrial demand.

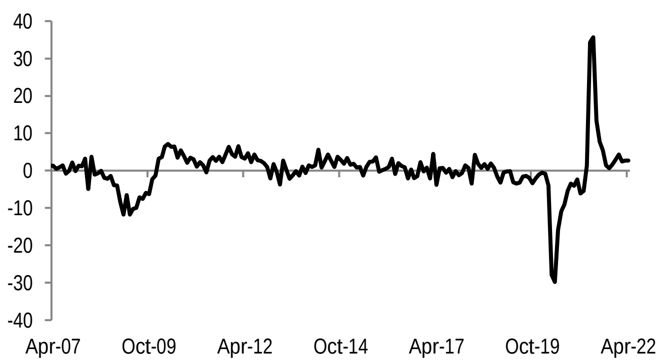
Regarding mining, high energy prices will continue throughout 2Q22, which should boost the sector. However, we highlight that CNH adjusted its oil production forecasts for 2022, with a downward revision (going from an all-year projection in 4Q21 of 1,730kbpd to 1,651kbpd). On the contrary, the outlook in natural gas was revised upwards (from 3,854MMcf to 3,977MMcf per day). However, the latter would not compensate for the decline in crude oil. Lastly, we point out President López Obrador's announcement that *New Fortress Energy* committed to invest up to US$3 billion to process liquefied gas in the country. If this project materializes, it could become an important boost for mining in the medium-term.

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

	nsa				sa	
	Apr-22	Apr-21	Jan-Apr'**22**	Jan-Apr'**21**	Apr-22	Apr-21
Industrial Production	2.7	34.4	3.0	3.9	2.9	33.9
Mining	0.0	5.0	1.7	-1.0	0.1	5.1
Oil and gas	-3.3	-1.3	-1.4	-2.4	-3.3	-1.3
Non-oil mining	2.1	37.3	1.3	10.0	2.4	38.0
Services related to mining	23.7	-1.3	22.7	-10.3	25.6	-3.6
Utilities	2.6	-1.4	2.3	-3.5	3.2	-1.7
Electricity	3.0	-3.4	2.5	-4.9	3.7	-3.8
Water and gas distribution	1.5	5.9	1.9	1.3	1.5	5.8
Construction	1.7	38.1	0.4	-0.1	2.1	36.9
Edification	2.8	49.6	-0.6	-1.3	3.0	49.3
Civil engineering	-7.0	-3.6	1.4	-5.9	-6.2	-3.9
Specialized works for construction	4.3	43.5	3.9	10.2	4.0	41.1
Manufacturing	3.9	50.2	4.5	7.8	4.5	49.6
Food industry	2.9	1.2	3.0	-1.5	3.5	0.2
Beverages and tobacco	8.0	57.4	7.8	12.1	7.9	59.1
Textiles - Raw materials	0.9	294.1	9.8	18.2	8.5	273.0
Textiles - Finished products ex clothing	-6.2	116.4	-4.8	14.1	-3.7	109.5
Textiles - Clothing	4.4	233.6	14.7	-0.8	5.5	231.3
Leather and substitutes	1.6	429.6	5.4	6.7	6.7	415.2
Woodworking	-6.5	49.0	3.2	6.7	-3.1	45.4
Paper	3.4	19.7	6.3	2.6	3.0	19.1
Printing and related products	10.9	50.4	15.0	7.0	13.0	47.6
Oil- and carbon-related products	39.8	3.6	17.9	19.4	39.8	3.6
Chemicals	8.0	1.4	6.6	-4.1	8.5	0.9
Plastics and rubber	2.0	64.0	7.0	16.8	5.7	61.5
Non-metallic mineral goods production	1.7	68.3	3.6	12.3	3.7	66.5
Basic metal industries	2.0	26.2	2.6	5.3	2.0	25.8
Metal-based goods production	-0.4	69.3	1.0	17.4	3.3	67.0
Machinery and equipment	3.7	65.1	0.0	12.8	8.6	59.3
Computer, communications, electronic, and other hardware	13.5	33.0	9.1	7.6	10.6	32.4
Electric hardware	-1.9	43.8	1.5	19.5	1.0	39.0
Transportation equipment	-1.1	584.7	2.3	20.7	1.2	578.5
Furniture, mattresses, and blinds	3.2	119.4	7.2	17.3	6.7	124.4
Other manufacturing industries	8.8	33.5	5.9	4.7	10.2	33.3

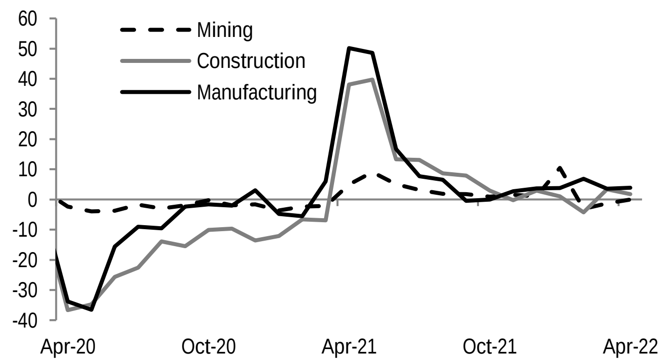
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



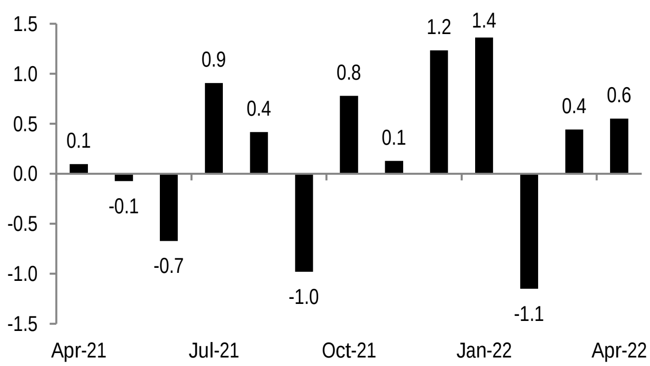
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-22	Mar-22	Feb-22	Feb-Apr'**22**	Jan-Mar'**22**
Industrial Production	0.6	0.4	-1.1	0.6	1.6
Mining	1.4	-0.9	-6.4	-2.7	1.4
Oil and gas	-0.7	-2.7	1.4	-0.1	0.8
Non-oil mining	-0.1	-1.1	1.4	0.6	0.6
Services related to mining	40.2	1.2	-44.1	-19.7	3.2
Utilities	0.2	2.3	-0.2	2.1	1.8
Electricity	0.0	3.3	-0.7	2.3	1.9
Water and gas distribution	0.9	0.1	0.5	1.1	0.7
Construction	0.5	4.8	-2.2	1.5	0.7
Edification	0.7	4.6	-0.2	3.0	1.3
Civil engineering	-4.8	1.0	-4.3	-6.0	-4.6
Specialized works for construction	2.4	3.3	-5.0	-1.3	-1.1
Manufacturing	1.2	-0.2	0.6	1.8	2.1
Food industry	1.4	-0.5	1.0	1.1	0.4
Beverages and tobacco	1.4	-4.7	4.3	3.1	3.4
Textiles - Raw materials	3.5	-2.7	-2.5	-2.4	-0.4
Textiles - Finished products ex clothing	-1.3	-1.6	2.2	-2.2	0.1
Textiles - Clothing	-3.0	2.5	-0.5	-2.9	-0.9
Leather and substitutes	-1.6	4.7	-4.6	2.0	6.7
Woodworking	-4.6	5.5	-0.5	-2.2	-4.1
Paper	6.8	-1.4	1.6	1.8	-0.8
Printing and related products	1.6	-0.3	3.6	3.6	2.8
Oil- and carbon-related products	4.1	-0.8	1.8	5.5	4.7
Chemicals	0.2	-0.1	1.3	1.3	1.2
Plastics and rubber	0.0	0.6	-0.5	1.9	3.1
Non-metallic mineral goods production	0.0	0.7	0.5	0.8	0.8
Basic metal industries	1.4	-1.4	-1.0	-1.1	-0.5
Metal-based goods production	-0.3	0.5	5.0	2.3	-0.5
Machinery and equipment	4.8	0.7	2.1	0.5	-2.9
Computer, communications, electronic, and other hardware	4.1	-1.1	3.0	6.5	5.3
Electric hardware	4.1	-1.6	0.2	2.7	2.8
Transportation equipment	1.2	0.6	-3.1	0.4	4.2
Furniture, mattresses and blinds	-8.5	-0.9	9.8	-1.2	-3.8
Other manufacturing industries	7.6	-3.8	-0.2	-0.9	-0.9

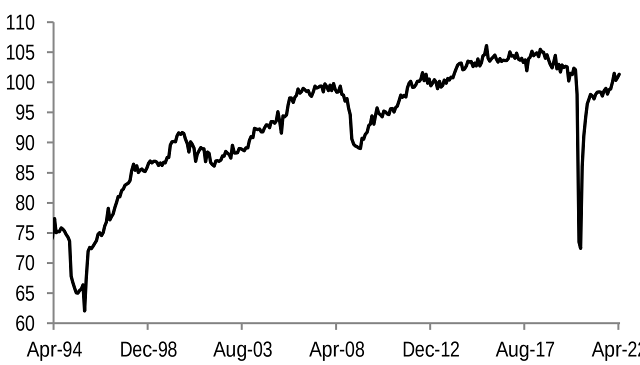
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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