Industrial production – A pause in sequential terms, albeit with resilience in manufacturing

- **Industrial production (August): 3.9% y/y nsa; Banorte: 4.3%; consensus: 2.9% (range: 1.6% to 4.5%); previous: 2.6%**
- **In sequential terms, industry was unchanged (0.0% m/m), with a modest rebound in mining (+0.4%). However, it was limited by the fall in manufacturing (-0.1%) and construction (-1.7%)**
- **At first glance this result seems little favorable. However, we think it is somewhat encouraging as the manufacturing sector maintains some resiliency**
- **Consistent with our view, the sector will remain positive in 3Q22, although decelerating at the margin. In our opinion, there is still some room for recovery, which may allow continued dynamism**
- **However, towards the end of the year, industry could be affected by the uncertainty related to fears of a global recession triggered by additional monetary tightening**

Industry keeps growing in annual terms. The sector rose 3.9% y/y (see Chart 1), higher than consensus (2.9%) but closer than our estimate (4.3%). Considering an additional working day, using seasonally adjusted figures, growth was lower at 3.3% y/y. This figure is mostly in line with INEGI´s estimate in its *Timely Indicator of Economic Activity* (3.1%). Inside and with original data, manufacturing led the performance at +8.1%, followed by mining (-0.1%) and with construction much lower (-4.0%), as seen in Chart 2. For details, see Table 1.

Pause in sequential terms, with a mixed performance inside. Industry was unchanged (0.0% m/m, as seen in Chart 3), breaking with five months of gains. With this result, the sector almost matched the level in February 2020 (used as its pre-pandemic metric). However, it is still 3.9% below its historical high in September 2015 (Chart 4). Mining led performance at +0.4%. 'Related services' showed a more modest move at -1.2% –its first single-digit adjustment in five months–, extending the 20.5% decline of the previous month. Meanwhile, the oil sector fell 0.2%, consistent with lower gas production reported by the *National Hydrocarbons Commission*. Meanwhile, the non-oil sector continued its positive trend with an increase of 0.3%, which we attribute to some stability in commodity prices.

Construction plummeted 1.7%, extending the 1.3% loss of the previous month. Inside, we highlight additional weakness in civil engineering, despite some favorable news regarding progress of the *Tren Maya*, some water distribution projects, and other key infrastructure works (*e.g.* Mexico-Toluca train) Specialized services fell 0.8%, which we partly associate with the performance of the previous sector. Lastly, edification was also weaker at -1.3%, in our view still quite limited by high input prices –despite a recent moderation–, and now possibly by the increase in financing costs (due to the rate hiking cycle).

October 12, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Manufacturing output fell just 0.1%, which we believe is quite modest considering the +1.6% of July. This would be somewhat consistent with the decline in IMEF's manufacturing PMI –down to contraction territory–, as well as more challenging signals from abroad. However, it did surprise us to the upside, suggesting that the sector is being quite resilient. Within the sector, 15 of the 21 categories fell (Table 2), with some of the largest declines seen in machinery and equipment (-12.5%), beverages and tobacco (-3.5%), and oil and carbon (-2.5%). However, increases centered on electric equipment (+3.3%), clothing (+2.6%) and transportation (+1.9%), with the latter being consistent with timely figures from AMIA and the trade balance.

Headwinds could imply a higher slowdown in the sector. Today's results suggest that industry will likely remain positive in 3Q22, albeit decelerating relative to the performance seen in the first half of the year considering: (1) A more challenging base; and (2) increasing headwinds both externally and domestically. The latter are becoming more relevant towards the end of the year, representing additional risks for performance in 4Q22.

On the external front, we highlight that manufacturing production in the US continues to show mixed signs. During September, the *S&P Global* manufacturing PMI reported an improvement thanks to an increase in 'production' and 'new orders'. In contrast, the manufacturing ISM fell to its lowest level since May 2022. In other figures, the labor market in that country continues to show strength, while inflation expectations remain on a downward trend. At the same time, consumer confidence continues to improve. However, we do not rule out that additional shocks (*e.g.* energy supply, disruptions to supply chains, or related to the conflict in Ukraine) could affect the already weak domestic demand of our principal trading partner.

In the domestic front, inflation trends in the remainder of the year are not encouraging, expecting Banxico to continue raising rates. However, we identify three important drivers for industry, which could provide some needed stimulus to show more resilience in coming months, such as: (1) Government spending on priority projects; (2) the construction of industrial parks and/or factories; and (3) new investment (both local and foreign) in the manufacturing sector. Regarding the first point, the need to advance key infrastructure projects –such as the *Tren Maya* and finish the Dos Bocas refinery– and to reactivate other unfinished works from previous administrations –such as the *El Zapotillo* dam in Jalisco, or the Mexico-Toluca Interurban Train– could be a trigger for a recovery in construction, which has been strongly affected by the price increases in inputs for more than a year.

On the second point, the increase in demand for industrial buildings –mainly in the north and Bajío– has implied the development of new projects to build industrial parks. According to Sergio Argüelles, president of the Mexican Association of Private Industrial Parks (AMPIP), the nearshoring phenomenon has filled industrial spaces in the north of the country, with almost 100% occupancy in Tijuana, Ciudad Juárez and Monterrey. In this context, the reactivation of this type of construction is necessary by the industrial real estate sector.

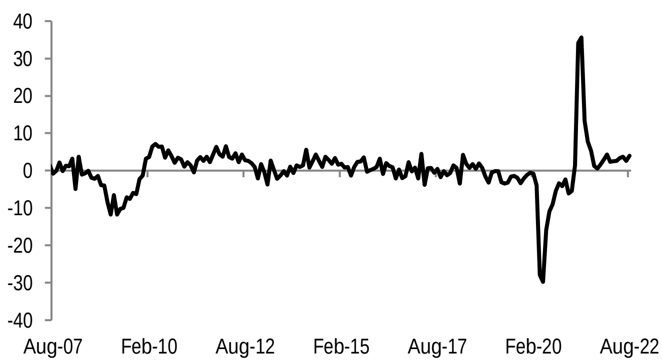
The AMPIP calculates that in the rest of 2022 at least 25 new industrial parks will be built –6 million square meters with an approximate investment of US$2.5 billion. Lastly, regarding investment in manufacturing, the country will continue to benefit from the arrival of new companies or new production lines by companies already installed. Regarding the former, some recent examples are BOCE Industrial Systems, which is installed in Querétaro with an investment of US$1.5 million and the German company Thyssenkrupp, which is investing US$37 million in a new plant in San Luis Potosí. On the latter, some examples are the investment of SIEMENS, which with $955 million started a new plant in Nuevo León, increasing its production oriented to the US and Canadian markets; and Utz, a Swiss company that is installing its second plant in Guanajuato with an investment of US$16.8 million.

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

	nsa				sa	
	Aug22	Aug-21	Jan-Aug'**22**	Jan-Aug'**21**	Aug-22	Aug-21
Industrial Production	3.9	5.3	3.2	8.9	3.0	5.0
Mining	-0.1	1.8	0.8	1.8	0.0	1.8
Oil and gas	1.6	-1.6	-1.2	-0.3	1.7	-1.6
Non-oil mining	0.0	1.3	0.2	10.8	0.0	1.3
Services related to mining	-9.1	26.8	15.6	-1.3	-9.0	26.0
Utilities	4.2	-5.0	3.1	0.2	4.0	-5.3
Electricity	5.0	-6.9	3.5	-0.5	4.8	-7.1
Water and gas distribution	1.2	2.7	1.6	2.7	1.2	2.6
Construction	-4.0	8.1	-0.5	7.7	-4.4	7.2
Edification	-6.1	6.3	-2.6	7.7	-6.7	5.3
Civil engineering	-5.1	7.9	0.5	-2.3	-5.2	7.1
Specialized works for construction	7.0	17.5	7.6	17.8	7.2	18.3
Manufacturing	8.1	6.5	5.3	12.6	6.4	6.0
Food industry	2.7	5.2	2.9	1.3	1.4	5.1
Beverages and tobacco	7.5	2.0	7.7	13.6	4.5	1.3
Textiles - Raw materials	1.0	33.0	5.8	41.4	-0.7	31.1
Textiles - Finished products ex clothing	-0.9	0.6	-4.7	17.8	-2.8	-0.2
Textiles - Clothing	10.3	26.1	10.7	27.9	8.3	23.6
Leather and substitutes	7.3	16.5	5.4	28.8	3.9	14.9
Woodworking	-12.6	25.2	-2.2	20.6	-13.7	23.6
Paper	3.9	11.0	4.1	10.4	2.4	10.8
Printing and related products	16.4	12.8	13.4	20.0	14.9	11.0
Oil- and carbon-related products	13.9	22.8	17.2	17.4	14.8	24.0
Chemicals	1.2	2.7	4.7	-0.7	-0.3	1.7
Plastics and rubber	6.0	13.9	6.1	23.4	4.2	12.0
Non-metallic mineral goods production	2.1	4.7	2.8	15.1	1.7	4.5
Basic metal industries	1.0	14.8	1.9	13.4	1.3	15.2
Metal-based goods production	4.5	13.2	1.4	24.0	0.8	12.0
Machinery and equipment	-2.3	16.4	2.5	21.0	-4.3	14.1
Computer, communications, electronic, and other hardware	21.2	10.1	12.3	15.1	18.2	13.0
Electric hardware	8.3	15.6	2.3	22.2	6.5	14.9
Transportation equipment	21.1	-3.2	7.1	22.1	18.4	-4.9
Furniture, mattresses, and blinds	0.4	15.4	3.4	31.0	-0.4	14.6
Other manufacturing industries	4.7	10.7	5.0	13.1	3.2	9.3

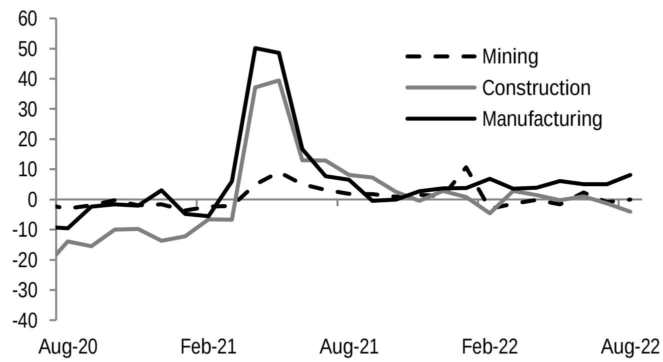
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



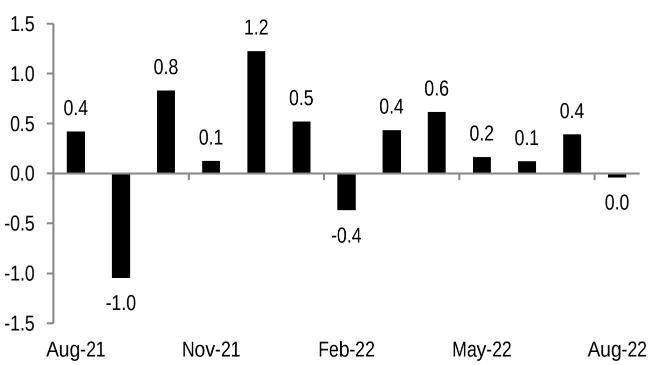
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-22	Jul-22	Jun-22	Jun-Aug'22	May-Jul'22
Industrial Production	0.0	0.4	0.1	0.7	0.9
Mining	0.4	-2.6	2.6	1.2	1.1
Oil and gas	-0.2	0.3	-0.1	0.4	-0.4
Non-oil mining	0.3	0.6	0.7	0.1	-1.5
Services related to mining	-1.2	-20.5	26.1	8.1	15.0
Utilities	-0.4	-0.1	-0.9	0.2	2.1
Electricity	-0.9	0.2	-1.0	0.4	2.8
Water and gas distribution	0.3	-0.3	-0.6	-0.4	0.1
Construction	-1.7	-1.3	0.1	-1.8	0.1
Edification	-1.3	0.1	-1.5	-3.6	-2.3
Civil engineering	-3.2	-0.6	0.9	1.9	4.0
Specialized works for construction	-0.8	-5.4	4.4	3.7	8.1
Manufacturing	-0.1	1.6	0.1	1.7	1.6
Food industry	-0.5	-0.5	0.9	0.8	1.1
Beverages and tobacco	-3.5	5.1	-1.5	1.7	1.0
Textiles - Raw materials	-0.2	-0.2	0.6	0.0	-0.6
Textiles - Finished products ex clothing	-2.5	7.9	-6.8	-2.7	-2.9
Textiles - Clothing	2.6	-6.2	10.9	4.2	0.9
Leather and substitutes	1.3	1.5	-1.9	0.1	1.4
Woodworking	-3.9	-0.3	0.1	-2.8	-1.2
Paper	-0.2	0.6	-3.5	-0.8	2.0
Printing and related products	-0.7	4.3	-2.1	-0.7	-1.6
Oil- and carbon-related products	-2.5	18.0	-16.2	-7.9	-6.9
Chemicals	0.2	-1.6	-0.2	-2.2	-2.3
Plastics and rubber	-0.1	0.0	1.0	1.1	1.2
Non-metallic mineral goods production	-0.3	1.9	-1.7	-1.4	-1.5
Basic metal industries	-0.4	-0.2	-0.7	-0.1	0.5
Metal-based goods production	-0.6	2.6	-0.8	0.6	0.2
Machinery and equipment	-12.5	6.1	-1.4	-0.1	5.1
Computer, communications, electronic, and other hardware	-0.6	2.4	3.8	6.9	6.2
Electric hardware	3.3	-0.1	-1.7	1.1	1.6
Transportation equipment	1.9	6.5	-0.9	5.4	4.2
Furniture, mattresses and blinds	-0.9	2.6	-3.8	0.0	0.2
Other manufacturing industries	0.7	0.0	-0.6	1.0	1.7

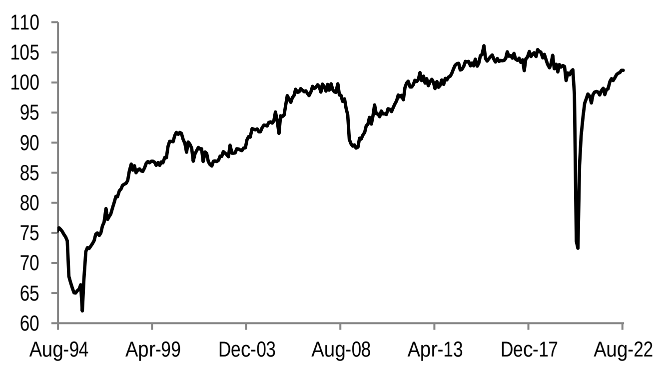
Source: INEGI

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, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899