Industrial production –Moderation in January, albeit with strength in manufacturing

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- **Industrial production (January): 2.8% y/y nsa; Banorte: 5.2%; consensus: 2.4% (range: 1.5% to 5.2%); previous: 3.0%**
- **Sequentially, industry was unchanged (0.0% m/m). Manufacturing gathered pace, up 0.7%. Mining also had a positive contribution, although more modest, at 0.2%. Finally, construction fell by -1.0%**
- **Although the figure was considerably below our forecast, we believe the overall situation remains favorable. We think that additional supply chain improvements and other positive factors will gain relevance throughout the quarter**
- **We consider that the sector will keep growing in the short-term, albeit not ruling out a moderation in the pace due to several headwinds that are gaining dynamism**

Moderation in the annual rate at the beginning of the year. Industry rose 2.8% y/y (see Chart 1), higher than consensus (2.4%) but considerably lower than our estimate (5.2%). The period had one additional working day. Thus, growth with seasonally adjusted figures was lower at 2.5% y/y, coming in below INEGI's estimate in its *Timely Indicator of Economic Activity* at 3.1%. Back to original data, manufacturing concentrated gains as they expanded 4.8%, while construction was more modest at +3.0%. On the contrary, mining had a relevant contraction of -3.5% (Chart 2). For details, see Table 1.

Industry breaks with three months in a row of improvements. The sector was unchanged at 0.0% m/m (Chart 3), a pause after three months of sequential growth. As such, production remains 3.4% below its historical high of September 2015 (Chart 4). Inside, manufacturing rose 0.7%, a positive result considering that the balance of risks remains skewed to the downside. Among the positive factors, we highlight: (1) Better than expected performance of US industry, mainly on manufacturing resilience; (2) progress on international trade conditions, including better supply chain wait times and lower transportation costs; and (3) a positive inertial effect. On the contrary, some of the negatives include: (1) Higher PPI, both the headline and secondary activities; (2) additional monetary tightening; and (3) higher COVID-19 contagions, albeit limited. As such, timely figures were mixed. Inside, 13 of the 21 categories increased (Table 2), highlighting oil and carbon (3.5%), the food industry (2.1%), and electrical equipment (1.3%). On the other hand, losses centered on electronics (-2.7%) and transportation (-1.7%), with the latter consistent with AMIA's report for the month.

Mining grew 0.2%, with volatility inside limiting progress. 'Related services' fell 2.2%, acknowledging a challenging base effect. On the contrary, both oil and non-oil had a better performance. The former rose 1.3%, in line with CNH's production figures –with higher oil and gas production. Finally, we think the non-oil sector (+1.9%) was favored by higher demand for raw materials, driven by the China's reopening.

Construction adjusted downwards, at -1.0%. Even though the magnitude is important, we believe it is not as negative as it seems given that it accumulated an expansion of 5.9% in the four previous months. In addition, several factors that have allowed its expansion are still at play. Although some of its related indicators are mixed –noting a relevant increase in prices, but with mixed signals for jobs– it's still too soon to state if this implies a change of trend or if it is just a pause in its current trajectory. By categories, losses concentrated in civil engineering (-8.6%) and related works (-7.5%), while edification (1.5%) added a fifth month stronger.

We expect some dynamism in the short-term, despite increased headwinds. January's performance suggests that some challenges prevail. As such, we remain cautious about transportation and raw material costs in general, as well as monetary tightening, and higher financial market volatility.

By sectors, we think that both manufacturing and construction have the potential to remain as industry drivers. We highlight that both are being favored by nearshoring, although due to the nature of the related investments, it is important to note that the outcomes that we have estimated are contemplated in different time frames. As we have mentioned in several reports, the effect that has already been observed since 2022 has been higher dynamism in construction–which arises from the demand for industrial spaces– and which represents a short- and medium-term boost for the industry. In this sense, we consider that growth of industrial parks will continue throughout 2023. A couple of examples of the latter are the investments of (1) *American Industries Group*, deploying US$150 million to increase its warehouses and industrial parks by 140 hectares; and (2) *Meor Real Estate*, allocating $2.2 billion to build 4 industrial parks. This is only a hint of all the activity taking place in the sector, for which almost everyday there are announcements of new developments.

Regarding manufacturing, we estimate that the result of current investments will be reflected in the medium- and long-term, although we do not rule out some boost also in the short-term. On the latter, we refer to those investments related to home appliances –which has been developing in the north and center of Mexico for more than 20 years and is well placed globally– and similar industries. In this field, the expansion of existing assembly lines and higher utilization rates to take advantage of factories' full capacity could imply higher dynamism as soon as in 1H23. In this context, Yoelle Rojas, General Director of the *Nuevo León Home Appliances Cluster* has stated that US$1.5 billion in investments were attracted in 2022. In the medium and long-term, the auto industry is poised to be one of the big gainers with the arrival of new investments, especially for the assembly of EVs. In this case, we believe its consequences may be more structural in nature. In the short-term, its effect its impact could be more limited, with growth mostly in the auto parts industry and in exports from companies already in Mexico established. In the medium-term, we have calculated that Mexico could gain as much as US$168 billion in additional exports in the next five years (US$33.6 billion annual average) only due to nearshoring.

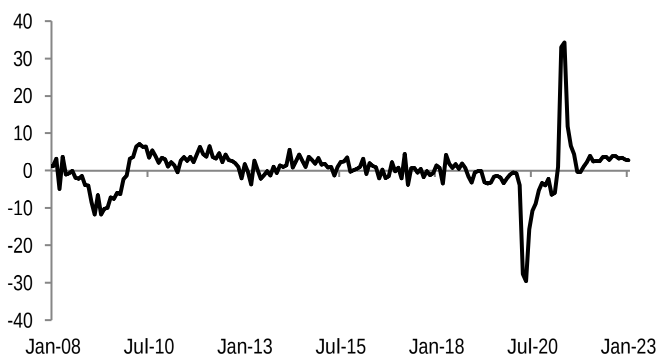
Going back to early 2023, we remain positive on industrial activity. We anticipate a positive inertial effect, as well as better performance in construction and some manufacturing subcategories. All of the above, without leaving aside the fact that certain adverse factors are present and may limit progress, among which we note: (1) Inflationary pressures in our country and the US; (2) the possibility that monetary tightening cycle will continue at home and abroad; and (3) a strong increase in financial market volatility because of fears about the stability of the US banking sector after the collapse of SVB Financial and Signature Bank.

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

	nsa				sa	
	Jan-23	Jan-22	2022	2021	Jan-23	Jan-22
Industrial Production	2.8	4.0	3.3	5.4	2.5	3.9
Mining	-3.5	8.7	0.2	0.1	-3.9	8.0
Oil and gas	0.4	0.7	-1.2	-0.4	0.0	0.2
Non-oil mining	1.2	-1.6	-0.6	5.2	1.0	-1.8
Services related to mining	-19.1	61.8	13.0	-6.9	-18.7	62.5
Utilities	4.5	-0.2	3.6	-17.6	4.4	-0.3
Electricity	5.8	-0.9	4.3	-22.7	5.7	-0.8
Water and gas distribution	1.2	1.4	1.5	0.6	1.2	1.4
Construction	3.0	2.9	0.4	8.0	2.9	3.2
Edification	3.0	-0.3	-2.4	7.3	3.0	0.4
Civil engineering	1.7	9.7	4.0	3.2	2.0	10.3
Specialized works for construction	3.8	11.4	9.4	15.9	3.3	11.0
Manufacturing	4.8	3.1	5.2	8.5	4.1	3.4
Food industry	1.7	1.6	1.7	2.5	1.5	2.1
Beverages and tobacco	3.7	5.6	6.3	9.8	3.1	4.4
Textiles - Raw materials	-12.4	17.2	-0.1	32.7	-14.0	16.5
Textiles - Finished products ex clothing	-2.0	-4.4	-4.0	10.3	-2.9	-3.6
Textiles - Clothing	3.4	17.2	5.7	24.6	1.4	17.0
Leather and substitutes	3.2	5.2	5.8	17.2	1.0	4.6
Woodworking	-0.3	8.5	-3.8	16.6	-1.0	10.4
Paper	-2.1	6.1	2.0	8.8	-2.2	6.9
Printing and related products	7.8	16.4	11.9	21.6	6.4	16.8
Oil- and carbon-related products	8.3	14.7	14.4	19.7	7.3	13.3
Chemicals	-1.6	2.2	1.4	1.0	-2.6	2.1
Plastics and rubber	-0.9	8.6	4.3	17.9	-2.5	8.6
Non-metallic mineral goods production	6.3	3.7	2.0	11.4	5.7	3.5
Basic metal industries	4.4	3.1	3.0	9.5	4.2	2.6
Metal-based goods production	2.6	-1.6	1.2	15.3	3.0	-1.2
Machinery and equipment	15.0	-2.5	3.4	16.7	13.9	-0.2
Computer, communications, electronic, and other hardware	11.4	6.1	16.7	8.1	14.1	5.4
Electric hardware	5.9	5.8	4.1	16.6	4.8	4.9
Transportation equipment	8.8	0.5	9.4	8.3	6.6	1.1
Furniture, mattresses, and blinds	12.0	1.4	-1.9	26.0	9.8	0.8
Other manufacturing industries	7.9	4.8	3.4	10.5	6.3	4.7

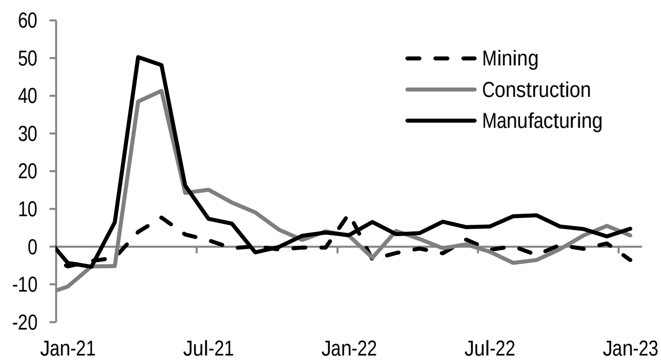
Source: INEGI

Chart 1: Industrial production
% y/y



Source: INEGI

Chart 2: Industrial production by sector
% y/y



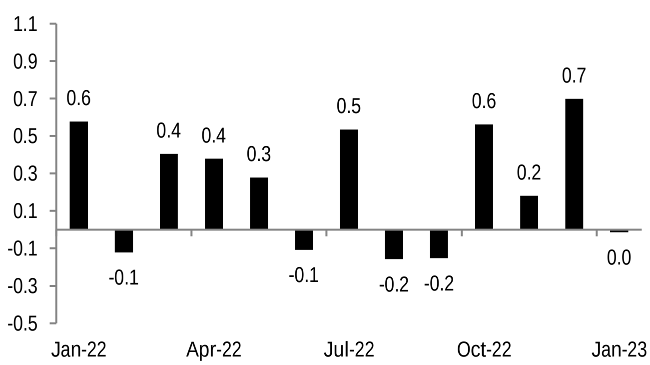
Source: INEGI

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

	% m/m			% 3m/3m	
	Jan-23	Dec-22	Nov-22	**Nov'22**-Jan'**2**3	Sep-Nov'**22**
Industrial Production	0.0	0.7	0.2	1.0	0.8
Mining	0.2	1.0	-0.4	1.0	1.0
Oil and gas	1.3	0.0	-0.4	0.1	-0.3
Non-oil mining	1.9	0.1	0.5	0.8	-0.4
Services related to mining	-2.2	12.2	-1.7	15.7	17.3
Utilities	0.8	1.2	0.4	1.3	-0.1
Electricity	1.1	1.2	0.4	1.2	-0.6
Water and gas distribution	0.1	0.2	-0.1	0.2	0.4
Construction	-1.0	2.6	1.3	3.8	3.0
Edification	1.5	2.0	0.3	3.3	2.1
Civil engineering	-8.6	-0.9	9.8	7.8	8.6
Specialized works for construction	-7.5	8.8	1.5	6.3	6.6
Manufacturing	0.7	0.5	-0.4	0.2	-0.2
Food industry	2.1	-1.5	-1.0	-1.2	-1.1
Beverages and tobacco	1.5	0.4	-1.5	-0.6	-1.6
Textiles - Raw materials	2.9	-2.6	-3.2	-6.4	-7.4
Textiles - Finished products ex clothing	-2.5	1.4	3.1	2.4	-0.9
Textiles - Clothing	5.4	1.9	-7.9	-5.3	-4.7
Leather and substitutes	1.3	3.7	-4.5	-3.0	-3.5
Woodworking	0.2	-1.1	1.5	3.2	2.2
Paper	1.5	-2.4	-0.2	-3.0	-3.7
Printing and related products	-0.9	1.1	-2.6	1.5	4.1
Oil- and carbon-related products	3.5	-10.6	6.5	6.1	8.9
Chemicals	1.0	2.6	-3.9	-2.2	-2.6
Plastics and rubber	-1.0	3.1	-3.0	-1.4	-1.4
Non-metallic mineral goods production	4.4	0.4	0.1	2.5	1.1
Basic metal industries	-1.8	1.8	2.7	4.3	3.7
Metal-based goods production	-0.1	-1.4	0.4	-0.8	-1.3
Machinery and equipment	-1.9	4.6	2.6	8.7	4.8
Computer, communications, electronic, and other hardware	-2.7	3.0	0.7	1.5	1.1
Electric hardware	1.3	2.1	-1.0	0.9	0.4
Transportation equipment	-1.7	3.2	0.2	0.6	-0.4
Furniture, mattresses, and blinds	11.1	-9.0	2.6	-1.2	-3.3
Other manufacturing industries	5.8	-1.3	-1.7	-0.7	-1.4

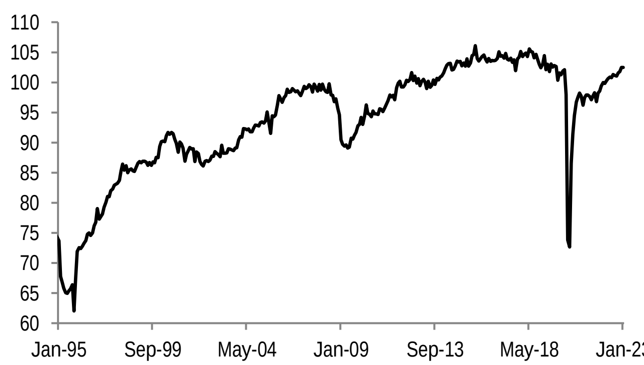
Source: INEGI

Chart 3: Industrial production
% m/m sa



Source: INEGI

Chart 4: Industrial production
Index sa



Source: INEGI

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