# Industrial production – Positive in mining, but limited in manufacturing

January 10, 2020

www.banorte.com
@analisis_fundam

**Juan Carlos Alderete, CFA**
Director of Economic Research
juan.alderete.macal@banorte.com

**Francisco Flores**
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Industrial production (November): -2.1% y/y; Banorte: -1.8%; consensus: -1.5% (range: -2.4% to -1.4%); previous: -3.0%**
- **We highlight that mining advanced 0.9% y/y, its first positive print since September 2018, when it was distorted to the upside by a base-effect related to natural disasters**
- **Year-to-date industry has declined 1.8%, with most of the weakness centered in mining (-5.6%) and construction (-5.0%)**
- **In seasonally-adjusted terms, industrial production grew 0.8% m/m, which we see as modest considering that it came after two months in contraction**
- **In particular, we are relatively more concerned about manufacturing, up only 0.2% m/m despite the rebound in the auto sector**
- **Today's report signals that industry remains in a difficult environment, affected not only by recent temporary factors in autos but also likely due to global drivers. On the other hand, we consider that the pick-up in oil-mining is positive, suggesting it could stop being a drag**

**Industrial activity declined 2.1% y/y in November.** This was below than consensus (-1.5%) and closer to our -1.8%. Year-to-date, industry has contracted 1.8%, unchanged when compared to the previous month (Table 1). In terms of sector performance, we highlight that mining grew 0.9%, first positive print since September 2018. Nonetheless, the latter period was distorted upwards by a base-effect due to natural disasters in the same month of the previous year, so today's result looks more favorable. The advance in this sector was driven by oil (0.8%), slightly stronger than suggested by Pemex's data on crude-oil production at 1,722kbpd (+0.3% y/y), with gas also increasing. Construction (-3.4%) and manufacturing (–3.0%) were negative, dragging performance and with the latter falling two consecutive months (Chart 2).

**Modest recovery, although failing to revert recent losses.** Overall, industry advanced 0.8% m/m (Table 2), which we consider modest given the significant accumulated declines in the past two months. More so, with today's report, October's performance was revised down to -1.5% from -1.1% the preliminary print. Remembering that part of the recent impact is explained by temporary shocks in the auto sector, our expectation was a faster and more significant recovery, even after advancing +7.0% after October's 11.3% decline. Despite of the latter, total manufacturing increased only 0.2%. We find more concerning that industries such as food (-0.2%), beverages (-2.1%) and non-clothing textiles (-8.6%), which can be categorized as non-durable goods, registered such marked declines. In addition, machinery and equipment (-9.8%) and computers and electronic devices (-0.9%), more closely categorized as durables, also fell relatively strongly.

Although construction recovered slightly in a sequential manner at +1.0%, it remains pretty weak as the index is hovering around 2012 levels. Civil engineering continues to underperform (-4.6%), with edification actually posting its largest expansion so far this year (+3.9%). Lastly and as previously mentioned, mining showed a more favorable performance (1.2%), highest in little less than two years.

**Difficulties remain in industry, with greater concerns on manufacturing.** In broad terms, the report confirms that industry remains in a tight spot. In particular, we are more concerned about manufacturing as it had been strong in despite elevated trade uncertainty. Although developments in this front have been positive, the most recent dynamic increases the probability that the sector is experiencing more clearly the global deceleration, with the slowdown not only explained auto sector shocks. In our opinion, this had been largely compensated by market-share gains in the US at the expense of China. Nevertheless, data such as December's manufacturing ISM –at a new low since the financial crisis–, support a possible deceleration of a higher magnitude that would extend at least for the first months of 2020. In this sense, auto production for the same month in Mexico declined 12.5% y/y.

In construction, the rebound in edification was favorable, especially when coupled with business confidence also improving, condition we believe necessary for a more sustainable recovery. Nevertheless, civil engineering is still weak, more related to the public sector and which given the recent performance of economic activity, suggests relatively little room for a policy response from the Federal Government to boost the sector. Lastly, the *Mexican Construction Business Chamber* (CMIC, in Spanish) forecasts an improvement in the year, estimating a 1.5% y/y expansion.

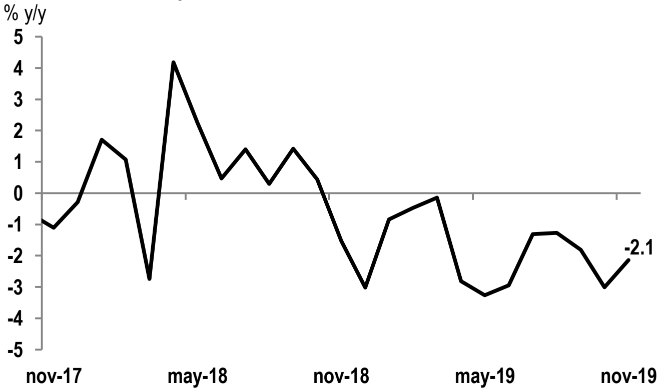
Last but not least, we highlight efforts to increase oil production, with stabilization becoming clearer since May, which is already having a more sizable impact in industrial data. We expect this to continue, with the annual comparison likely rebounding more meaningfully as soon as January. In this context, we still believe that mining could contribute positively to GDP in 2020, which would be a first since 2012.

Table 1: Industrial production
% y/y nsa

| | Nov-19 | Oct-19 | Jan-Nov, '19 | Jan-Nov, '18 |
|---|---|---|---|---|
| **Industrial Production** | **-2.1** | **-3.0** | **-1.8** | **0.8** |
| **Mining** | **0.9** | **-2.3** | **-5.6** | **-4.5** |
| Oil and gas | 0.8 | -4.2 | -7.3 | -6.1 |
| Non-oil mining | 0.0 | -0.2 | -2.4 | -2.5 |
| Services related to mining | 4.9 | 11.7 | 2.6 | 6.5 |
| **Utilities** | **3.2** | **4.4** | **2.0** | **7.0** |
| Electricity | 3.8 | 5.2 | 2.2 | 8.6 |
| Water and gas distribution | 1.1 | 1.2 | 1.1 | 1.7 |
| **Construction** | **-3.4** | **-9.3** | **-5.0** | **1.0** |
| Edification | 0.8 | -9.1 | -3.0 | 1.6 |
| Civil engineering | -12.1 | -5.5 | -5.9 | -4.9 |
| Specialized works for construction | -13.7 | -14.9 | -13.4 | 5.8 |
| **Manufacturing** | **-3.0** | **-1.3** | **0.3** | **1.8** |
| Food industry | 2.4 | 3.7 | 1.8 | 3.5 |
| Beverages and tobacco | 0.4 | 5.0 | 2.4 | 4.1 |
| Textiles - Raw materials | -6.5 | -3.8 | -3.4 | 0.7 |
| Textiles - Finished products ex clothing | -9.1 | -0.4 | -3.5 | 5.6 |
| Textiles - Clothing | -10.0 | -5.2 | -4.7 | 0.7 |
| Leather and substitutes | -6.5 | 1.2 | -2.0 | -2.0 |
| Woodworking | -0.6 | 0.0 | -0.3 | -2.6 |
| Paper | 0.4 | -1.9 | -0.4 | 1.6 |
| Printing and related products | -10.2 | -12.5 | -10.8 | 8.0 |
| Oil- and carbon-related products | 10.0 | 8.8 | -3.3 | -16.5 |
| Chemicals | 0.4 | -0.1 | -1.9 | -2.4 |
| Plastics and rubber | -4.2 | -3.7 | -2.7 | 2.5 |
| Non-metallic mineral goods production | -0.7 | -3.0 | -2.9 | -1.5 |
| Basic metal industries | -3.2 | 0.9 | -1.7 | -0.9 |
| Metal-based goods production | -8.7 | -6.1 | -5.7 | 1.2 |
| Machinery and equipment | -19.1 | -6.1 | -0.8 | 1.8 |
| Computer, communications, electronic, and other hardware | -3.7 | 3.0 | 4.8 | 2.7 |
| Electric hardware | 0.8 | 0.6 | -1.1 | 1.5 |
| Transportation equipment | -6.5 | -7.8 | 1.8 | 3.5 |
| Furniture, mattresses and blinds | -4.5 | -4.0 | -4.4 | 8.4 |
| Other manufacturing industries | -0.9 | -4.5 | 0.8 | 0.9 |

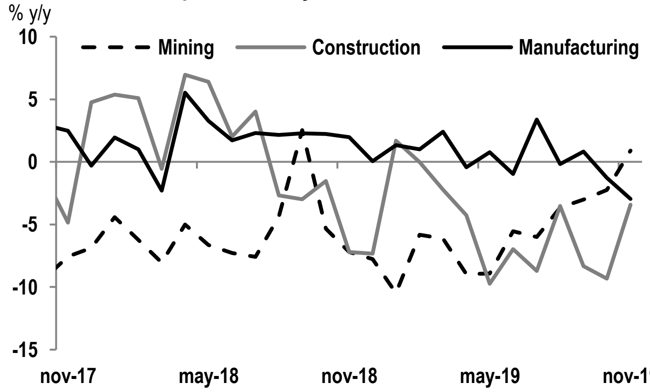
Source: INEGI

Chart 1: Industrial production
% y/y




Source: INEGI

Chart 2: Industrial production by sector
% y/y



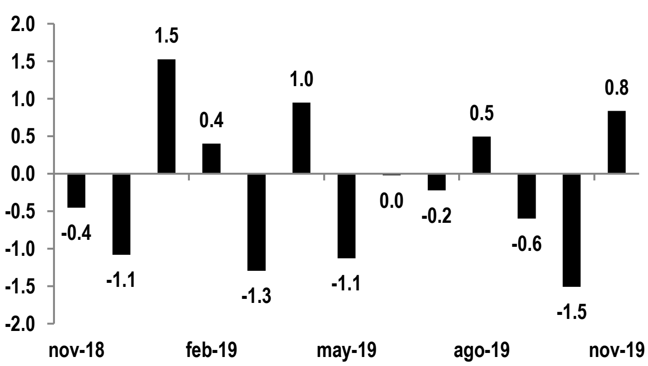

Source: INEGI

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

| | % m/m | | | % 3m/3m | |
|---|---|---|---|---|---|
| | Nov-19 | Oct-19 | Sep-19 | Nov-Sep '19 | Oct-Aug '19 |
| **Industrial Production** | **0.8** | **-1.5** | **-0.6** | **-1.1** | **-0.6** |
| **Mining** | **1.2** | **-0.5** | **0.0** | **1.4** | **2.4** |
| Oil and gas | 3.1 | -1.2 | 0.4 | 1.5 | 1.3 |
| Non-oil mining | 0.5 | 1.3 | 0.8 | 0.7 | -0.3 |
| Services related to mining | -5.2 | -1.7 | -3.2 | 2.4 | 14.5 |
| **Utilities** | **-0.2** | **-0.1** | **0.0** | **1.1** | **2.4** |
| Electricity | -0.2 | -0.1 | 0.0 | 1.4 | 2.9 |
| Water and gas distribution | 0.1 | 0.3 | 0.0 | 0.0 | 0.0 |
| **Construction** | **1.0** | **-1.2** | **-2.0** | **-2.3** | **-1.7** |
| Edification | 3.9 | -1.5 | -2.7 | -1.8 | -1.4 |
| Civil engineering | -4.6 | -2.4 | -3.2 | -6.9 | -3.9 |
| Specialized works for construction | -0.8 | -1.6 | 2.2 | 0.8 | -0.2 |
| **Manufacturing** | **0.2** | **-2.4** | **0.4** | **-1.4** | **-0.8** |
| Food industry | -0.2 | 0.0 | 0.5 | 0.3 | 0.1 |
| Beverages and tobacco | -2.1 | -0.9 | 2.8 | 0.7 | 1.1 |
| Textiles - Raw materials | -1.0 | 4.4 | -2.7 | -3.9 | -4.7 |
| Textiles - Finished products ex clothing | -8.6 | 9.1 | -3.7 | 1.0 | 2.7 |
| Textiles - Clothing | -3.3 | -4.8 | 3.9 | -0.4 | 0.7 |
| Leather and substitutes | -3.6 | 0.0 | -0.9 | -2.0 | -0.5 |
| Woodworking | -1.0 | -1.0 | -0.9 | -1.1 | -0.7 |
| Paper | 1.3 | -0.5 | -0.1 | 0.7 | 0.5 |
| Printing and related products | -1.5 | -1.8 | -5.3 | -2.7 | 3.6 |
| Oil- and carbon-related products | 0.8 | -1.4 | 1.2 | 0.4 | 2.3 |
| Chemicals | 0.7 | -0.9 | 1.5 | 1.3 | 0.8 |
| Plastics and rubber | 2.3 | -1.1 | 0.3 | 0.6 | 0.7 |
| Non-metallic mineral goods production | 3.3 | -3.6 | -0.1 | -1.2 | -0.1 |
| Basic metal industries | -2.0 | -2.7 | -3.4 | -0.8 | 2.8 |
| Metal-based goods production | 0.1 | -0.9 | -0.2 | 0.2 | 0.7 |
| Machinery and equipment | -9.8 | -5.4 | -1.9 | -7.0 | -0.6 |
| Computer, communications, electronic, and other hardware | -0.9 | 1.2 | -1.9 | -1.7 | -1.8 |
| Electric hardware | 1.3 | 1.2 | 1.8 | 1.4 | -0.7 |
| Transportation equipment | 7.0 | -11.3 | 1.7 | -5.4 | -4.9 |
| Furniture, mattresses and blinds | 1.7 | 2.3 | -3.7 | 1.8 | 3.0 |
| Other manufacturing industries | -0.5 | 0.0 | -1.4 | -0.5 | 1.4 |

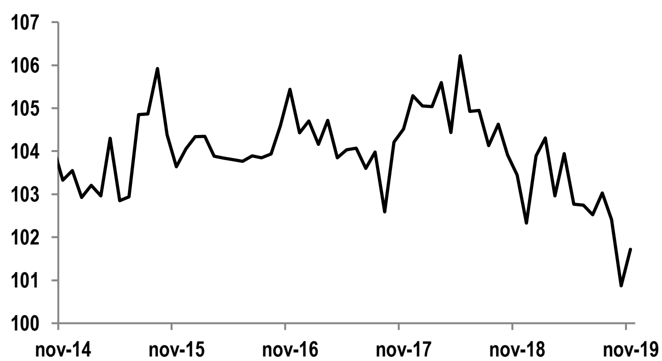
Source: INEGI

**Chart 3: Industrial production**
% m/m sa




Source: INEGI

**Chart 4: Industrial production**
Index sa




Source: INEGI

### Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Analyst Certification

**We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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** | | | |
| Gabriel Casillas Olvera | Chief Economist, Head of Research and IRO | gabriel.casillas@banorte.com | (55) 4433 - 4695 |
| Raquel Vázquez Godinez | Assistant | raquel.vazquez@banorte.com | (55) 1670 - 2967 |
| Lourdes Calvo Fernández | Analyst (Edition) | lourdes.calvo@banorte.com | (55) 1103 - 4000 x 2611 |
| **Economic Research and Financial Market Strategy** | | | |
| Alejandro Padilla Santana | Executive Director of Economic Research and Financial Market Strategy | alejandro.padilla@banorte.com | (55) 1103 - 4043 |
| Itzel Martínez Rojas | Analyst | itzel.martinez.rojas@banorte.com | (55) 1670 - 2251 |
| **Economic Research** | | | |
| Juan Carlos Alderete Macal, CFA | Director of Economic Research | juan.alderete.macal@banorte.com | (55) 1103 - 4046 |
| Francisco José Flores Serrano | Senior Economist, Mexico | francisco.flores.serrano@banorte.com | (55) 1670 - 2957 |
| Katia Celina Goya Ostos | Senior Economist, Global | katia.goya@banorte.com | (55) 1670 - 1821 |
| Luis Leopoldo López Salinas | Economist, Global | 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** | | | |
| Santiago Leal Singer | Senior Strategist, Fixed Income and FX | santiago.leal@banorte.com | (55) 1670 - 2144 |
| Leslie Thalía Orozco Vélez | Strategist, Fixed Income and FX | leslie.orozco.velez@banorte.com | (55) 5268 - 1698 |
| **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 |
| Valentín III Mendoza Balderas | Senior Strategist, Equity | valentin.mendoza@banorte.com | (55) 1670 - 2250 |
| Víctor Hugo Cortes Castro | Senior Strategist, Technical | victorh.cortes@banorte.com | (55) 1670 - 1800 |
| Jorge Antonio Izquierdo Lobato | Analyst | jorge.izquierdo.lobato@banorte.com | (55) 1670 - 1746 |
| Eridani Ruibal Ortega | Analyst | eridani.ruibal.ortega@banorte.com | (55) 1103 - 4000 x 2755 |
| **Corporate Debt** | | | |
| Tania Abdul Massih Jacobo | Director of Corporate Debt | tania.abdul@banorte.com | (55) 5268 - 1672 |
| 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 |
| **Economic Studies** | | | |
| Delia María Paredes Mier | Executive Director of Economic Studies | delia.paredes@banorte.com | (55) 5268 - 1694 |
| Miguel Alejandro Calvo Domínguez | Senior Analyst, Economic Studies | miguel.calvo@banorte.com | (55) 1670 - 2220 |
| **Wholesale Banking** | | | |
| Armando Rodal Espinosa | Head of Wholesale Banking | armando.rodal@banorte.com | (81) 8319 - 6895 |
| Alejandro Eric Faesi Puente | Head of Global Markets and Institutional Sales | alejandro.faesi@banorte.com | (55) 5268 - 1640 |
| Alejandro Aguilar Ceballos | Head of Asset Management | alejandro.aguilar.ceballos@banorte.com | (55) 5268 - 9996 |
| Arturo Monroy Ballesteros | Head of Investment Banking and Structured Finance | arturo.monroy.ballesteros@banorte.com | (55) 5004 - 1002 |
| Gerardo Zamora Nanez | Head of Transactional Banking, Leasing and Factoring | gerardo.zamora@banorte.com | (81) 8318 - 5071 |
| 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) 5004 - 1453 |
| René Gerardo Pimentel Ibarrola | Head of Corporate Banking | pimentelr@banorte.com | (55) 5268 - 9004 |
| 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) 5004 - 1454 |