Industrial production – An uphill battle for 4Q19 on temporary factors

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- **Industrial production (October): -3.0% yoy; Banorte: -3.1%; consensus: -1.9% (range: -4.5% to -0.5%); previous: -1.8%**
- **As expected, the manufacturing sector declined 1.2% yoy, its weakest since March 2018 and impacted by the auto sector (-7.7%). Construction remained weak at -9.3%, while mining fell 2.1%**
- **In seasonally adjusted terms, industrial production edged down 1.1%, adding two months in contraction. By sector, manufacturing began the quarter on a very week footing at -2.1%, while construction and mining were also negative at -1.3% and -0.5%, respectively**
- **As a result, risks to our –1.7% yoy forecast for industrial activity in 4Q19 remain skewed to the downside. Nevertheless, we maintain it as we believe a rebound is likely in November, particularly in manufacturing**

Industrial activity falls 3.0% yoy in October. This figure was lower than consensus but practically in line with our -3.1% estimate, now marking with this print a full-year in contraction in the monthly series. Moreover, year-to-date the decline deepened to -1.8% from -1.7% at the close of 3Q19. As expected, the main drag was manufacturing (-1.2%) impacted to a great extent by adverse events in the auto sector (-7.7%). On the other hand, we highlight beverages and tobacco (5.0%) and food (3.7%) kept growing, in line with other indicators showing a relatively good performance in non-durable goods' purchases. Mining stood at -2.1%, with crude oil production, according to Pemex, down 4.9%. Scheduled maintenance works impacted production of oil-based products, as well as overall output, in line with comments from Pemex's CEO, Octavio Romero. Construction remains weak, at -9.3% from -8.3% in the previous month. Both edification (-9.2%) and civil engineering (-4.7%) extended their negative streak, despite the fact that capital investments by the Federal Government, according to the latest public finance report, edged up 1.4% yoy in real terms.

Industrial production: October 2019
% yoy, nsa

	Oct-19	Oct-18	Jan-Oct, '19	Jan-Oct, '18
Total	-3.0	0.4	-1.8	1.0
Mining	-2.1	-5.3	-6.1	-5.3
Utilities	4.1	10.1	1.8	7.9
Construction	-9.3	-1.5	-5.2	2.1
Manufacturing	-1.2	2.2	0.7	2.0

Source: INEGI

Weakest sequential performance since March. As a result of the temporary events observed during the period, industrial activity stood at -1.1% m/m, weakest since March. Moreover, at least the two previous months were revised lower, with September to -0.6% from barely flat (0.04%) originally, and August to +0.5% from +0.6%. These adjustments confirm big challenges still faced by industry, starting the last quarter of the year on an uphill battle and with the index at a level not seen since 1Q14. Construction (-1.3%) failed to rebound even after shedding 2.1% in September. Within its two main sub-sectors in terms of overall share, edification fell 1.5%, while civil engineering dropped 1.6%. Mining (-0.5%) was negative two consecutive months, in our view also affected by temporary events. Manufacturing plunged 2.1%, with revisions towards a -0.1% contraction in September. As mentioned above, transportation fell strongly, at –11.2%, with other weak sectors including machinery and equipment (-6.1%) and clothing (-4.5%). On a more positive note, the food industry was relatively resilient (0.1%) while textiles excluding clothing surged 5.4%

Industrial production: October 2019
% m/m, sa

	Oct-19	Sep-19	Aug-19
Total	-1.1	-0.6	0.5
Mining	-0.5	-0.1	2.7
Utilities	-0.2	0.0	1.9
Construction	-1.3	-2.1	1.1
Manufacturing	-2.1	-0.1	-0.5

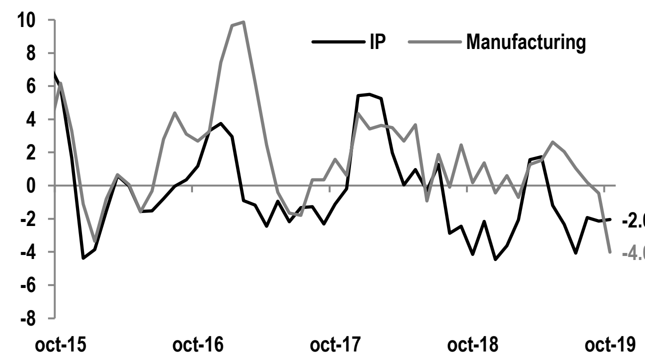
Source: INEGI

Industrial production: October 2019
% 3m/3m saar

	Aug-Oct'19	Jul–Sep'19
Total	**-2.0**	**-2.1**
Mining	9.7	5.8
Utilities	10.1	10.2
Construction	-7.6	-12.0
Manufacturing	-4.0	-0.5

Source: INEGI

Industrial production: Total and manufacturing
% 3m/3m saar



Source: INEGI

Available signals suggest a challenging year-end for industrial activity. We stress that today's report was unusually weak given the abovementioned shocks, a situation we expect to partially reverse in November. Nevertheless and at least in terms of autos, AMIA data on finished vehicles has already shown that production stood at 300,292 vehicles in the period, a 12.9% yoy decline from the -16.3% in October. Regarding oil-related mining, a better performance should be in store. A couple of days ago, Pemex's CEO stated that crude-oil production in the month stood at 1,702kbpd and they estimate 1,778kbpd in December, which would imply around -0.9% and 2.8% yoy, respectively.

Moreover, the discovery of a new well in Tabasco named Quesqui, which is estimated to contain between 500-700 million barrels of 3P reserves, should be helpful also as the company projects that it could add around 69kbpd of crude oil next year, along gas. Nevertheless, recent monthly performance has observed slight contractions, confirming that there are still important challenges in this front. As mentioned in previous publications, we believe efforts to stabilize production should help the sector to be less of a drag to overall industrial activity, particularly in 2020.

Despite of the latter, there are also warning signals in other indicators, such as the US ISM manufacturing (to 48.1pts from 48.3pts) and the IMEF manufacturing index for November, with the latter actually inching lower sequentially to a new low of 46.0pts and with seven consecutive months in contraction. The global backdrop remains difficult for growth, which poses a limit to the possibility of a stronger dynamism. On the other hand, there has been more positive news for next year lately. Among them, this week the governments of Mexico, Canada, and the US, signed on changes to the trade agreement, likely giving it a push forward for ratification. For additional information, see: "*Final details of USMCA agreed on, paving the way for approval*", <pdf>, December 10, 2019. This will likely increase certainty, with the manufacturing sector benefitted from this situation in a context in which there are still lingering concerns globally about protectionist measures. On the other hand, we believe the agreement to increase investments by the private sector will also be helpful for overall activity levels and construction. This sector is the one that concerns us the most, in a context of limited fiscal flexibility by the Federal Government and no signs yet of higher levels of business confidence, which we believe are necessary for a sustained pickup.

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