

## Industrial production – Activity rebounds in June but challenges remain

August 9, 2019

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- **Industrial production (June): -2.9% yoy; Banorte: -2.6%; consensus: -2.6% (range: -4.3% to 2.3%); previous: -3.3%**
- **In the monthly comparison, activity rebounded 1.1%, not enough to compensate for the 2.5% decline in May. By sector, mining was up 2.5%, construction increased 3.1% and manufacturing 0.3%**
- **In 2Q19, industry declined 3.0% yoy, below the estimated fall of 2.8% according to the first estimate of second quarter GDP. Therefore, the report has inserted downside risks to the latter figure, reported initially at -0.7% yoy (+0.1% q/q)**
- **Despite June's rebound, industry is still facing a challenging backdrop, with manufacturing in the US slowing down further in the midst of the recent escalation in trade tensions with China**
- **On the other hand, we believe performance, particularly in construction, could improve gradually during the rest of the year, aided by an acceleration in public spending by the Federal Government**

**Industrial activity remained in contraction in June.** Industrial production fell 2.9% yoy, slightly below consensus and our forecast, which matched at -2.6%. This is the 8<sup>th</sup> consecutive month in negative territory, resulting in a 1.8% yoy decline during 1H19, confirming this sector's weak performance in the midst of a more challenging global and local environment. Manufacturing contracted 0.8%, in line with our estimate, with only six out of 21 subsectors in positive territory. Among these, we highlight the 6.4% advance in computers and electronic devices, + 3.4% in transportation, and +0.5% in the food industry. On the contrary, metallic products plunged 15.0% while machinery and equipment declined 7.9%. In our view, this is consistent with other signs that the sector is decelerating, such as manufacturing exports and intermediate-goods imports.

Construction decreased 6.8%, above the significantly weak print of -9.6% in May, lowest since April 2009. Within, civil-engineering projects declined 5.3% and edification -5.5%. Last but not least, mining remains a drag, falling 5.6% yoy vs. the -8.9% in the previous month. Oil and gas production was down 8.2%, with the annual comparison likely staying negative in coming months even with the former stabilizing sequentially, according to Pemex. Non-oil mining decreased 0.7%, in contraction slightly more than one year.

**Industrial production: June 2019**  
% yoy, nsa

	Jun-19	Jun-18	Jan-Jun, '19	Jan-Jun, '18
<b>Total</b>	-2.9	0.3	-1.8	0.3
Mining	-5.6	-6.7	-7.7	-5.9
Utilities	1.3	1.9	0.5	1.3
Construction	-6.8	1.0	-3.8	2.1
Manufacturing	-0.8	2.2	0.7	1.5

Source: INEGI

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**With seasonally-adjusted figures, activity rebounded 1.1%.** Nevertheless, this pick-up comes after a downwardly-revised figure of -2.5% in the previous month. Nevertheless, the index has stagnated at a lower level since last October. All sectors were positive in the month. In particular, construction surged 3.1%, which was likely following the 6.2% decline of the previous print. All subsectors were positive, with edification leading as it advanced 3.5%. In spite of this increase, it is our take that this sector remains challenged. On a more positive note, manufacturing reversed the contraction observed in May, increasing 0.3%, albeit with 9 subsectors in negative territory. Transportation increased 1.3% after the -3.1% observed in May, with tentative signs that the auto sector is moderating, mostly due to weaker domestic sales. Moreover, the food industry –which is the largest subsector with a weight of around 12%– fell 0.1%. Lastly, mining was higher by 2.5%, its best monthly advance since January 2018. Nevertheless, the increase was driven by non-oil mining at 2.8%, with oil and gas production inching only 0.2% higher in a context in which the Federal Government is working decisively to turn around the decline in crude-oil. On a 3m/3m saar basis, industrial production was at -1.8%, improving at the margin relative to May, at -2.1%.

**Industrial production: June 2019**

% m/m, sa

	Jun-19	May-19	Apr-19
<b>Total</b>	1.1	-2.5	1.4
Mining	2.5	-1.7	-0.6
Utilities	1.1	-0.4	1.8
Construction	3.1	-6.2	1.1
Manufacturing	0.3	-0.2	0.5

Source: INEGI

**Industrial production: June 2019**

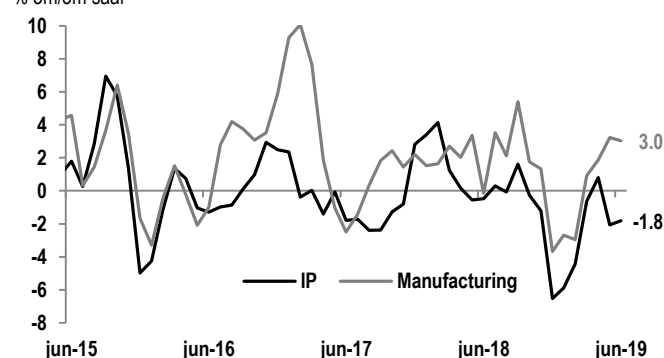
% 3m/3m saar

	Apr-Jun'19	Mar-May'19
<b>Total</b>	-1.8	-2.1
Mining	-6.8	-7.4
Utilities	6.2	4.8
Construction	-18.1	-17.8
Manufacturing	3.0	3.2

Source: INEGI

**Industrial production: Total and manufacturing**

% 3m/3m saar



Source: INEGI

**Industry still facing headwinds.** Among them, manufacturing in the US has extended its weakness. The ISM index in July fell for a fourth consecutive month to 51.2pts, new low since September 2016. The new orders component inched slightly higher, at 50.8pts from 50.0pts in the previous month. Meanwhile, the PMI is also low. In Mexico, the IMEF manufacturing index for the same month improved at the margin but stayed in contraction. In our view, dynamics in the indicator suggest that a more challenging outlook for external demand may be forming. For details, see: “*IMEF’s PMI surveys – Suggesting a weak outlook in both manufacturing and services*”, [pdf](#), August 1<sup>st</sup>, 2019. This has been coupled with other warning signs, such as the deceleration in manufacturing export growth and decline in intermediate-goods imports.

It should be mentioned that these dynamics were observed even before the latest escalation in trade tensions, highlighting the US announcement of tariffs of 10% on US\$300 billion of Chinese exports. According to estimates by the *Peterson Institute of International Economics (PIIE)*, these will mostly hit finished-goods (about 69%). Although this could represent a competitive advantage and some market share gains for Mexico in the US, we believe the net effect would likely be negative as: (1) It could impact US household’s real incomes; and (2) China retaliatory measures, such as halting imports of US agricultural products, could pressure prices for some goods sold by Mexican exporters. These are only some of the potential effects on our country, albeit they do not take into account its possible impact on global growth. On a more positive note, the recent depreciation of the Mexican peso (relatively close to its weakest level year-to-date, at around 19.45 per dollar) could help cushion some of the blow.

Regarding construction, we take today’s report as a first sigh of relief, although it is necessary to evaluate additional information to confirm if the sector is in a better footing given its very weak result in May. Even if we observe an improving trend, we believe it would be modest as business confidence in the sector remains low in the midst of an environment of high local uncertainty. In this respect, an eventual pickup is likely to come from acceleration in public spending by the Federal Government, as announced recently. Nonetheless, the overall performance should be limited by some temporary shocks that may still be having an impact, highlighting the suspension of construction projects in Mexico City.

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