

Manufacturing Monitor

Manufacturing slowed down in August; better outlook for 4Q23

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The BBVA Multidimensional Manufacturing Indicator (IMM BBVA)¹ contracted (-)0.9% y/y in August, bringing the average year-on-year change of the first eight months of the year to 1.6%. According to INEGI figures, the textile manufacturing, computer equipment and transportation equipment segments recorded the largest declines in capacity utilization during July, a period in which only 4 out of 22 manufacturing subsectors showed positive changes. Although demand for durable goods in the U.S. has shown a slowdown in recent months, the U.S. government's industrial support programs (IRA and CHIPS) have boosted output, improving the outlook for manufacturing activity in Mexico in the coming months.

According to INEGI figures, in the month of July, manufacturing subsectors whose output is still below pre-pandemic level include clothing manufacturing (15% below its pre-COVID figure), the wood industry (-9%) and the manufacture of textile inputs and products (-10% and -4%, respectively). The segments that have shown the greatest progress with respect to their pre-pandemic level include the manufacture of petroleum derivatives (39% above pre-COVID level), the machinery and equipment segment (+21%) and the manufacture of electrical appliances (+21%). The automotive industry (30% of manufacturing activity) has reached a level of output that exceeds its pre-pandemic level by 12%.

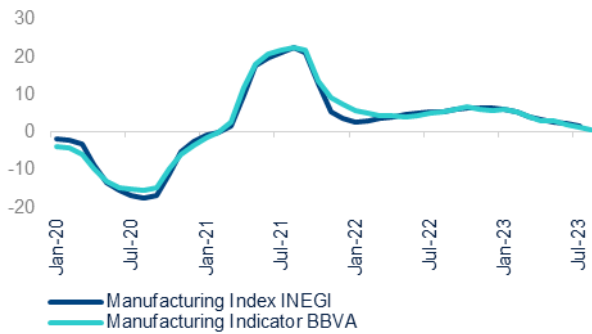
In terms of capacity utilization, 13 of the 22 subsectors are still at levels lower than their pre-COVID figure. Among them are the clothing manufacturing segment (12% below its January 2020 level), and the chemical industry (-11%). On the opposite end of the spectrum, the petroleum derivatives manufacturing segment and the computer and communications equipment manufacturing segment notably outperformed their pre-pandemic capacity utilization levels by a wide margin (+82% and +15%, respectively). In aggregate terms, the manufacturing sector recorded a level of capacity utilization in July that exceeded its pre-COVID figure by 1%, while its output exceeded the same threshold by 8%.

We estimate that the improved outlook for the U.S. manufacturing sector will have a favorable effect on its Mexican counterpart, in addition to the positive expectation regarding the industrial relocation process (nearshoring) in the following years. After several months of slowdown, the ISM index of new manufacturing orders in the U.S. has been showing signs of improvement in recent periods. We anticipate GDP growth of 3.2% by 2023 and 2.6% by 2024, driven by domestic demand and greater dynamism in the U.S. industrial sector.

¹ The BBVA Multidimensional Manufacturing Indicator (IMM BBVA) is based on the methodology of principal components, considering as inputs the economic variables of U.S. manufacturing. This set of variables includes the manufacturing output indexes published by the BEA (by economic sub-sector), and the components of the ISM manufacturing index of that country. For more details, visit: <https://www.bbvarresearch.com/en/publicaciones/mexico-multidimensional-manufacturing-index/>.

The IMM BBVA forecasts the trends of the manufacturing component of the IGAE

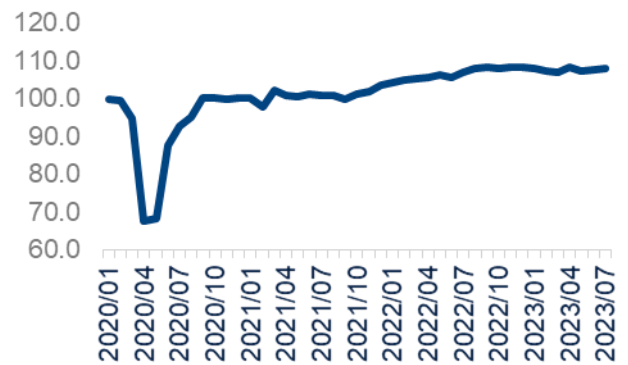
Figure 1. IGAE MANUFACTURING & IMM BBVA (Y/Y%, 6-MONTHS MOVING AVERAGE)



Source: BBVA Research / INEGI.

The output level exceeds its pre-pandemic figure by 8%

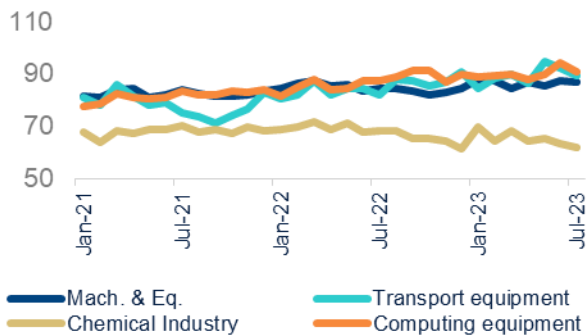
Figure 2: MANUFACTURING OUTPUT: (INDEX JAN/2020=100)



Source: INEGI.

Capacity utilization in the computer and communications equipment segment reaches 90.9%

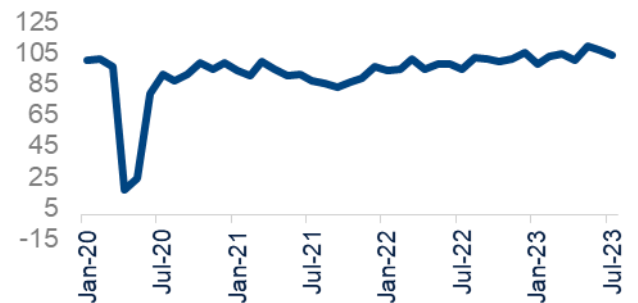
Figure 3. CAPACITY UTILIZATION (%)



Source: BBVA Research.

Capacity utilization in the automotive industry is still above its pre-pandemic level

Figure 4. CAPACITY UTILIZATION: AUTOMOTIVE INDUSTRY (INDEX JAN/2020=100)



Source: BBVA Research.

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