

**Manufacturing Watch**

# Manufacturing loses steam in 3Q23; year-end outlook improves

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The BBVA Multidimensional Manufacturing Indicator (BBVA MMI)<sup>1</sup> dipped by 2.0% in September, bringing the average year-on-year change for the first nine months of the year to 1.0% (vs. 4.9% in the same period last year). According to INEGI data, the manufacturing of petroleum products and non-metallic mineral products, as well as the beverage and tobacco industry segments reported the largest declines in capacity utilization during August, a period in which five of the 22 manufacturing subsectors delivered a negative performance. While the September BBVA MMI estimate points to a 0.6% QoQ decline in production in 3Q23, the sector is expected to perform better going forward, according to the leading indicators of manufacturing activity in the US. This late improvement is driven by the government support for the industry (IRA and CHIPS acts) and the resilience of domestic demand, as shown by the US ISM manufacturing new orders index (which has stabilized in recent months, following several months of consecutive declines). Meanwhile, retail sales in the US continued to fare well (with the automotive segment growing 0.6% MoM in September, in real terms).

According to INEGI figures, in August, the manufacturing subsectors which output was still below pre-pandemic levels included the timber industry (-11.8% below its pre-pandemic level), the manufacturing of garments (-11.7%) and the manufacturing of textile inputs and products (-10.7% and -8.2%, respectively). Conversely, the segments that have shown the greatest progress with respect to their pre-pandemic level include the manufacturing of petroleum derivatives (39% above pre-COVID level), the machinery and equipment segment (+22%) and the manufacturing of electrical appliances (+21.9%). Output in the automotive industry (30% of manufacturing activity) now exceeds its pre-pandemic level by 6.1%.

In terms of capacity utilization, 11 of the 22 subsectors are still at levels lower than their pre-COVID figure, notably the garment manufacturing segment (10.0 pp below its January 2020 level), the manufacture of non-metallic mineral-based products (-7.4 pp), and the chemical industry (-7.3 pp). On the opposite end of the spectrum, petroleum derivatives manufacturing, computer and communications equipment production, and machinery and equipment manufacturing outpaced their pre-pandemic capacity utilization levels by a wide margin (+15.1 pp, +11.6 pp and +6.7 pp, respectively). In aggregate terms, capacity utilization in the manufacturing sector was 1.0% below its pre-pandemic level, while its output exceeded the same benchmark by 7.2%.

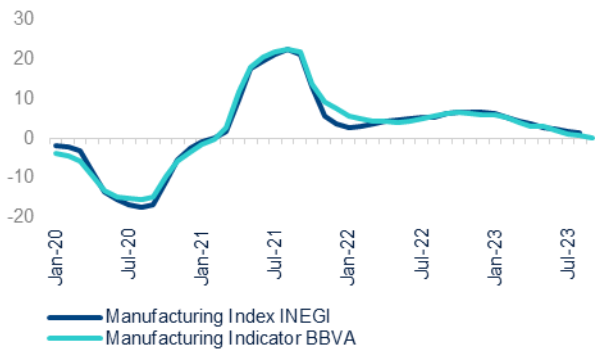
We expect the improved outlook for US manufacturing activity—given the resilience of its internal demand for durable goods and the government support to the industry—to have a positive effect on Mexico's manufacturing sector. In addition, production within global value chains is expected to reposition over the coming years (nearshoring). We maintain our GDP growth forecast at 3.2% for 2023 and 2.6% for 2024, driven by domestic demand and a more resilient U.S. industrial sector.

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1: The BBVA Multidimensional Manufacturing Indicator (BBVA MMI) 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 learn more, please visit: <https://www.bbva.com/en/publicaciones/mexico-multidimensional-manufacturing-index/>.

**BBVA MMI predicts trends in the manufacturing component of the IGAE**

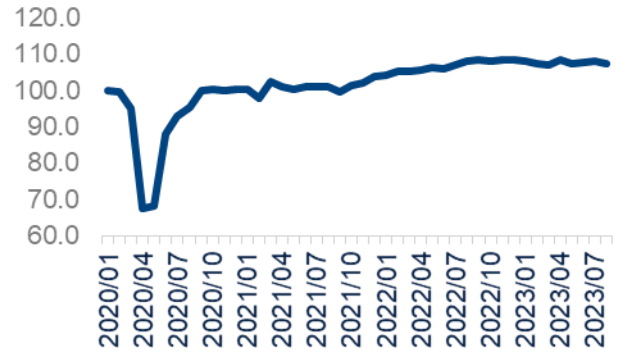
Figure 1. **IGAE MANUFACTURING & BBVA MMI (Y/Y%, SIX-MONTH MOVING AVERAGE)**



Source: BBVA Research / INEGI.

**Output exceeds its pre-pandemic figure by 7.2%**

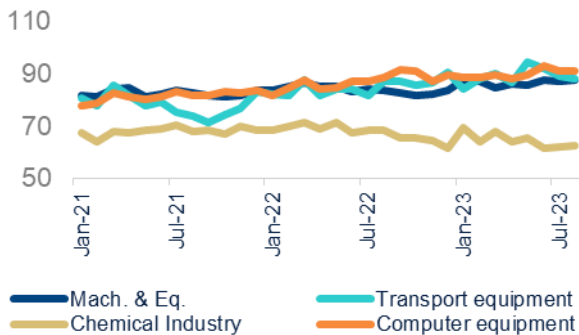
Figure 2: **MANUFACTURING OUTPUT (INDEX JAN/2020=100)**



Source: INEGI.

**Capacity utilization in the computer and communications equipment segment reaches 90.8%**

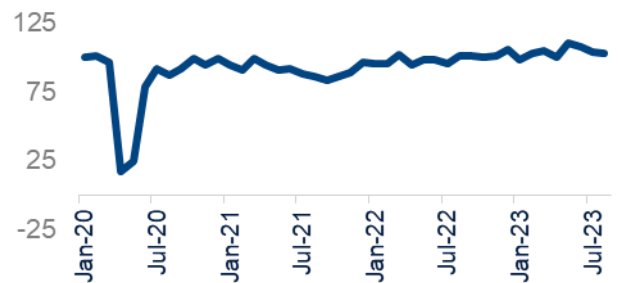
Figure 3. **CAPACITY UTILIZATION (%)**



Source: BBVA Research.

**Capacity utilization in the automotive industry surpasses its pre-pandemic level by 2.4%**

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



Source: BBVA Research.

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