

**Manufacturing Watch**

# Manufacturing slowdown moderates in September

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The BBVA Research Multidimensional Manufacturing Indicator (BBVA IMM)<sup>1</sup> fell by (-)2.2% y/y in September, making it nine straight declines in the year to date, albeit less than the drop recorded in August. Considering the figure for September, the year-on-year change averages (-)2.8% for the January-September period of this year, 4.9 pp below the figure recorded in the same period of the previous year. The most recent data on economic activity in the United States point to the resilience of private spending and manufacturing output in that country, confirming that the sector's output in Mexico may have exceeded its lowest point. We expect the segment to recover gradually over the coming quarters, amid a lower interest rate context.

According to INEGI's industrial activity figures, in cumulative terms manufacturing was down (-)0.3% in August, compared to the same period last year, with 11 of the 21 sub-sectors reporting production levels below those recorded in January. Notable underperformers include the basic metals industry (with production now 8.5% below that recorded in Jan-24), the manufacture of computer and communications equipment (-6.6%), and the manufacture of leather products (-5.8%). Meanwhile, those segments to have surpassed their level of production at the beginning of the year (by a larger margin) include the manufacture of transport equipment (7.0% above the Jan-24 level), the manufacture of electrical accessories and appliances (+5.0%), and the plastics and rubber industry (+3.9%). In aggregate terms, manufacturing output is 1.2% above its Jan-24 level.

As for capacity utilization, as of August, 10 of the 21 sub-sectors were still below their pre-COVID figure (vs. 11 the previous month). These include the manufacture of clothing (16.5% below its Jan-20 figure), the manufacture of leather products (-12.1%), and the wood industry (-10.0%). At the other end of the spectrum, the petroleum products segment, the manufacture of computer and communications equipment, and the beverages and tobacco industry all managed to comfortably exceed their pre-pandemic level of capacity utilization (+54.0%, +17.0%, and +12.6%, respectively). In terms of the monthly change, the manufacture of petroleum derivatives products showed the largest decline in capacity utilization in August (-19.6 pp), while the manufacture of metal products and the manufacture of furniture, mattresses and blinds showed the highest growth during the month (+3.4 pp).

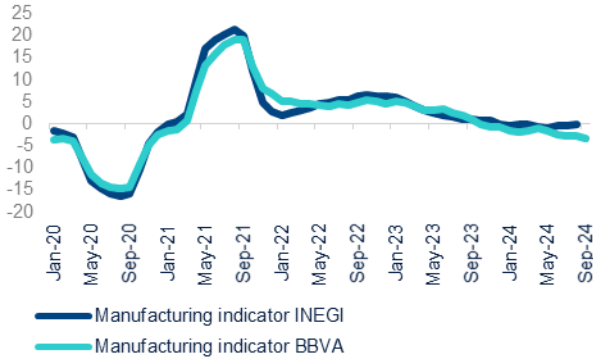
We do not expect the manufacturing sector to deteriorate further in the coming months, given the resilience of external demand, amid the gradual interest rate cuts. Other components of industry, such as construction, are likely to deliver quieter performances in the midst of greater uncertainty over the recently approved judicial reform. We estimate growth of 1.2% for 2024, and 1.0% in 2025, with low growth in domestic demand.

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<sup>1</sup> 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. To learn more, please visit: <https://www.bbva.com/en/publicaciones/mexico-multidimensional-manufacturing-index/>.

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

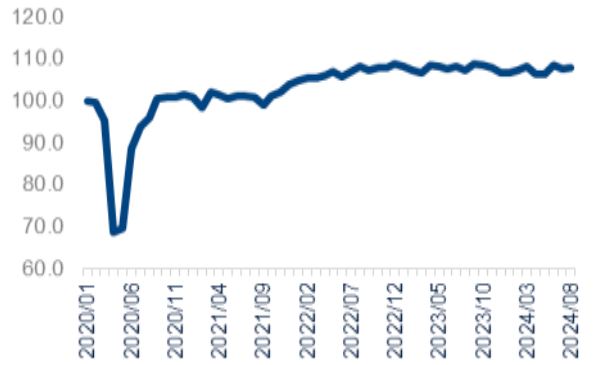
Figure 1. **IGAE MANUFACTURING & BBVA MMI (Y/Y%, SIX-MONTH MOVING AVERAGE)**



Source: BBVA Research / INEGI.

**Output exceeds its pre-pandemic figure by 8.0%**

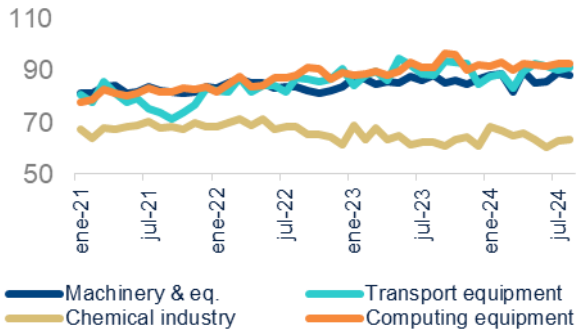
Figure 2. **MANUFACTURING OUTPUT (INDEX JAN/2020=100)**



Source: INEGI.

**Capacity utilization in the automotive segment reaches 91.4% in July**

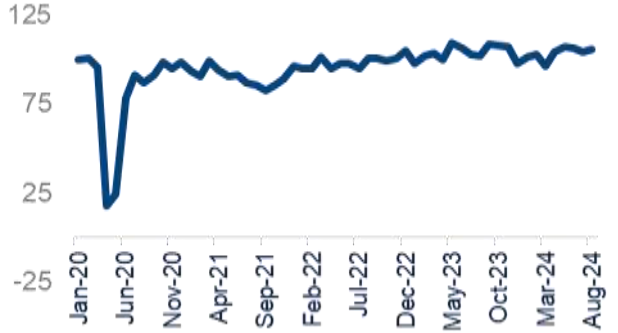
Figure 3. **CAPACITY UTILIZATION (%)**



Source: BBVA Research.

**Capacity utilization in the automotive industry is 6.0% above its pre-pandemic level**

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



Source: BBVA Research.

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