Latam Daily: Mexico March IP Implies Higher Q1 GDP than in First Estimate

- **Mexico: March industrial production data imply a slight upward revision in Q1-2021 GDP estimates**

MEXICO: MARCH INDUSTRIAL PRODUCTION DATA IMPLY A SLIGHT UPWARD REVISION IN Q1-2021 GDP ESTIMATES

March industrial production (IP) data, released on Wednesday, May 12, by INEGI, showed solid improvements from February that imply upward revisions to estimates for Q1-2021 real GDP. Seasonally-adjusted sequential growth accelerated from 0.4% m/m sa in February to 0.7% m/m sa, in line with expectations. Manufacturing growth led the month gains: it came in at 3.0% m/m sa after the -2.1% m/m sa downturn in February caused by poor weather conditions, energy shortages, and supply-chain problems with computer chips. Utilities growth also accelerated from February, up from -3.8% m/m sa to 4.9% m/m sa, as gas and electricity plants resumed activities in Mexico and in the southern US. Construction growth reversed, however, from 2.5% m/m sa in February to -0.7% m/m sa in March; mining also deepened its sequential contraction from -2.3% m/m sa to -3.1% m/m sa.

March's IP gains took annual industrial growth back into positive territory for the first time since October 2018, going from -4.5% y/y in February to 1.7% y/y (chart 1). Thus, for Q1-2021, IP decreased by -2.7% y/y, better than the -3.0% y/y contraction in the first Q1-2021 GDP estimates. This implies a slight upward revision of Q1's real GDP growth estimate of -3.8% y/y.

In the IP sub-sectors, manufacturing growth accelerated from -4.7% y/y in February to 6.2% y/y in March, reaching positive territory in year-on-year terms for the first time in eighteen months with the largest annual gain since March 2017. Construction growth weakened from -4.6% y/y to -5.5% y/y. However, mining and utilities softened their annual contractions from -9.8% y/y to -3.5% y/y, and from -2.5% y/y to -2.2% y/y, respectively.

In the coming months, lower COVID-19 infection rates in both Mexico and the US, and the materialization of additional US stimulus spending, represent favourable forces for industrial production. However, semiconductor bottlenecks in the auto industry could remain an issue, at least until June, that may cause production holdups and less-than-full capacity utilization. For the rest of 2021, we maintain our view that solid external demand accompanied by rising domestic demand will sustain Mexico's IP recovery, albeit in an environment of persistent uncertainty.

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Chart 1

Sources: Scotiabank Economics, INEGI.