



Edgar González
edgar.gonzalez@hrratings.com
Economic Analysis and Sovereign Debt
Senior Associate



Ricardo Gallegos
ricardo.gallegos@hrratings.com
Deputy Chief Economic Analysis Officer



Felix Boni
felix.boni@hrratings.com
Chief Credit and Economic Analysis
Officer

U.S. industrial production growth less than expected. Robust capital allocation toward information processing, advanced machinery, and AI infrastructure drives expansion

In July, U.S. industrial production maintained its upward trajectory, increasing for the second month in a row due to ongoing strength in manufacturing associated with factory output. Manufacturing activity advanced by 0.2% on a month-over-month basis, following a revised growth of 0.3% in June. Economists had expected 0.4% growth. The ongoing robustness in electronics investment tied to data centers and machines offset the reduction in motor vehicle and parts manufacture. Strong capital investment in information processing, high-tech machinery, and AI infrastructure contribute to growth. On a quarter over quarter annualized basis manufacturing advanced a strong 3.7%.

Data released by the Federal Reserve indicates that manufacturing production increased by 0.2% month-over-month following a 0.3% rise in June. Manufacturing output, excluding motor vehicles and components, increased by 0.4%, while the production of motor vehicles and parts declined by 2.1%, although for the quarter growth was strong vs. the immediately prior period. Output of durable goods increased by 0.7% month-over-month, with the sectors of computers and electronics, electrical equipment and components, and aircraft expanding by 1.9%, 1.3%, and 1.4%, respectively. Nondurable manufacturing experienced a month-over-month decrease of 0.4%. In general terms the data suggest strong investment driven growth.

Figure 1. Evolution of the U.S. industrial production

Sector	Annual Change		Shorter term change ¹	
	Monthly	Quarterly	m/m	q/q
Manufacturing	1.3%	1.5%	0.2%	3.7%
Durable	3.9%	3.8%	0.7%	9.3%
Motor vehicles and parts	2.1%	1.8%	-2.1%	15.1%
Nondurable	-1.6%	-1.1%	-0.4%	-2.3%
Mining	1.0%	0.9%	0.2%	1.0%
Utilities	0.7%	1.2%	0.5%	0.7%
Total	1.1%	1.3%	0.2%	2.8%

Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted data.

¹ Month over month and quarter over immediately prior quarter annualized.

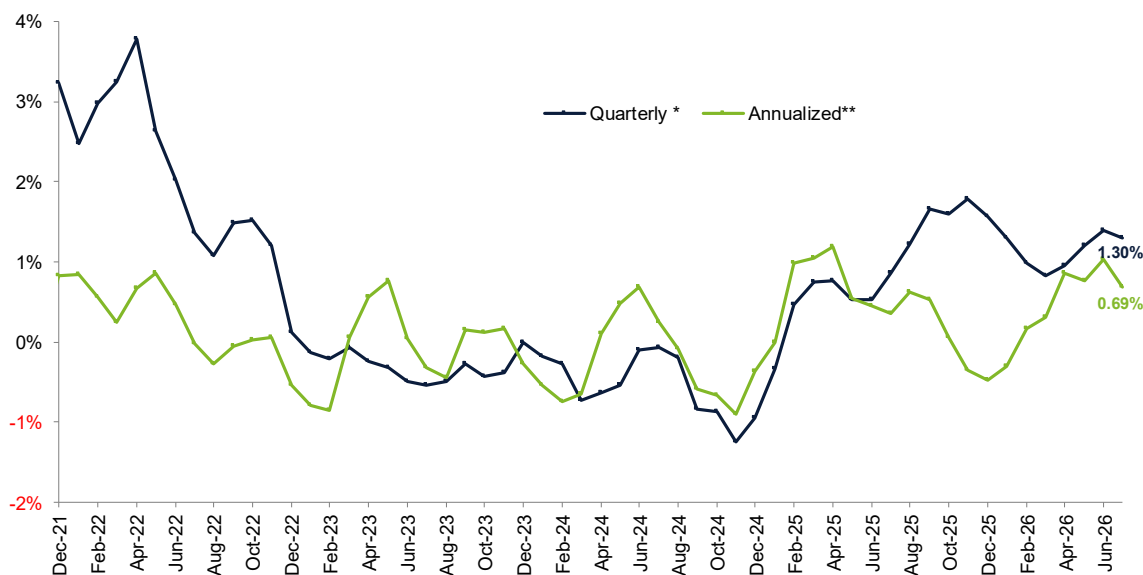


According to the report, business equipment manufacturing experienced a 0.8% rise, preserving a positive annual increase (+6.0%) attributed to capital expenditures on information processing, high-tech machinery, and AI infrastructure enhancements. The output of defense and aerospace equipment experienced a 1.8% month-on-month increase, demonstrating significant continuous momentum and requirements in military production. Despite the rise of high-tech and defense industries, conventional fields like automotive manufacture face periodic pullback.

In July, the mining and utilities indices experienced increases of 0.2% and 0.5%, respectively. U.S. utilities output had the highest increase in the previous three months, following a modest 0.1% growth in June. This surge was mostly a result of warm summer conditions amplifying the demand for air conditioning. Over the medium to long-term, power consumption from data centers and high-tech facilities will demand higher electricity generation by power plants.

On an annual basis, industrial production rose by 1.1%, driven by stable yearly advancements in manufacturing, utilities, and mining, along with significant investments in technology and defense equipment. Expenditure on data centers has partially offset the downturn in the automotive and consumer goods sectors.

Figure 2. Evolution in manufacturing production



Source: HR Ratings with data from INEGI and the FED
 *Present quarter compared to the corresponding quarter of the preceding year.
 **Present quarter compared to the directly prior quarter.

HR Ratings de México, S.A. de C.V. ("HR Ratings"), is an credit rating agency authorized by the National Banking and Securities Commission(CNBV) and registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934 and certified as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA).

The ratings and/or opinions of HR Ratings are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to \$1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between \$5,000 and US\$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

Media Contact

comunicaciones@hrratings.com



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS