

IMEF's PMI surveys – Gains in both sectors suggest strength in May

- **IMEF Manufacturing PMI (May, sa): 52.3pts; Banorte: 51.5pts; consensus: 51.0pts; previous: 51.6pts**
- **IMEF Non-manufacturing PMI (May, sa): 53.6pts; Banorte: 52.7pts; consensus: 52.7pts; previous: 51.7pts**
- **Both indicators showed additional gains, probably benefited by a better backdrop for activity. Specifically, within manufacturing all categories improved except 'deliveries', consistent with broad logistical issues**
- **In non-manufacturing, all components were stronger, highlighting 'new orders'. In our opinion, this is related to an additional improvement on epidemiological conditions**
- **The report suggests that the recovery kept gaining dynamism throughout the middle of 2Q21, in particular for non-manufacturing, with some prevailing risks for the other sector**

Positive results within IMEF's PMIs for May. The manufacturing indicator reached 52.3pts, +0.7pts relative to the previous month. Meanwhile, the non-manufacturing indicator stood at 53.6pts, up 1.9pts sequentially. With this, both remain firmly in expansion territory (above the 50pts threshold), suggesting a good performance of activity in the period. It seems that these are benefiting from an improvement in conditions surrounding the virus, allowing for a faster reactivation of the economy. Moreover, we believe that performance in manufacturing is being boosted by dynamism from abroad. For non-manufacturing we consider that several factors are at play, including vaccinations, employment conditions, an improvement in confidence levels, and strength in remittances, among others.

Manufacturing rebounds despite a complex environment prevailing. This indicator reached 52.3pts, with April's data revised considerably higher to 51.6pts from 50.3pts. In our view this is very positive, especially as the sector is facing several challenges currently. Specifically, during the month there were additional reports of disruptions from the lack of semiconductors and other materials, with *Ford* and *Nissan* added to other automakers with stoppages due to this reason. Taking this into account, we think the main driver behind the acceleration is still dynamism from abroad, especially from the US. In this context, the ISM manufacturing stood at 61.2pts, adding two months higher and above 60pts since February. This indicator's report suggests that demand remains vigorous and that both import and export orders gathered steam. This is consistent with gains in 'new orders' (+4.6pts) and 'production' (+5.8pts). Nevertheless, they also mentioned that logistical issues prevail, as well as lack of materials and higher transportation costs. In a similar manner, within the domestic indicator, the only component lower was 'deliveries' (-1.5pts), 'employment' rose 2.0pts, very relevant in a context of the stoppages, albeit with a limited impact due to demand strength. Considering this, we expect manufacturing's expansion to continue, albeit with doubts about the pace, not ruling out a slowdown.

June 1, 2021

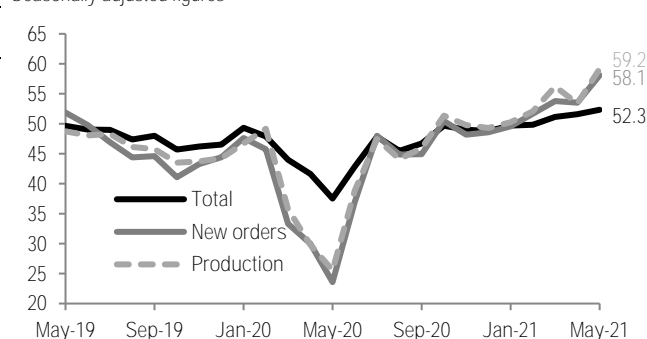
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IMEF's manufacturing indicator
Seasonally adjusted figures

	May-21	Apr-21	Difference
Manufacturing	52.3	51.6	0.7
New orders	58.1	53.5	4.6
Production	59.2	53.4	5.8
Employment	54.2	52.3	2.0
Deliveries	47.0	48.5	-1.5
Inventories	52.1	50.9	1.2

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing rises again. This indicator stood at 53.6pts, building up on the 51.7pts seen in April. However, figures for the latter month were revised strongly to the downside, with the first print at 53.2pts. Despite of this, it reached its highest since mid-2017. Similar to previous months, we think the main driver is the improvement on pandemic dynamics and mobility. The boost probably comes from both a decline in the number of daily cases and deaths, along the advance in the vaccination process. Regarding the latter, we saw a significant acceleration towards the end of the month, with the seven-day average nearing 600 thousand shots. In turn, this could have a positive impact in lagging sectors (*e.g.* tourism, entertainment). The recovery in said categories could also benefit others, such as retail, especially the sales of non-essential products. Looking at the breakdown, all components were higher. The acceleration was centered on ‘new orders’ (+3.6pts) and ‘deliveries’ (+1.9pts). This suggests that disruptions at a local level might be limited, contrasting with those elsewhere. ‘Production’ remained to the upside (+1.7pts), tying as the strongest component with ‘new orders’. Finally, ‘employment’ stabilized (+0.1pts), although still positive at the margin.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	May-21	Apr-21	Difference
Non-manufacturing	53.6	51.7	1.9
New orders	56.6	52.9	3.6
Production	56.6	54.9	1.7
Employment	51.8	51.7	0.1
Deliveries	50.0	48.1	1.9

Source: IMEF

Signals of optimism remain, not ruling out shocks on industry given persistent risks. In our opinion the report is very positive, showing that dynamism has prevailed –and even gathered steam– in 2Q21. In our opinion, the main drivers, both locally and globally, are showing an important acceleration, which is key for the domestic recovery.

Despite of this, some risks prevail on the horizon, especially for industry. Specifically, some issues surrounding supply chains, include: (1) Higher commodities prices; (2) lack of key inputs, delaying or even leading to production stoppages; and (3) logistics problems, with delays in shipments and higher costs due to the lack of infrastructure (*e.g.* containers). On the former, the upward trend has extended, expecting even higher prices in the short-term.

On the second, we have detailed on previous publications some of these problems, focusing on semiconductors. In this sense, the manufacturer *Renesas* announced that they expect one of its chip plants in Japan –which caught fire in March– to resume operations at a 100% capacity by mid-June. Although this should help soften the blow, it will still take some time for shipments to return to normal (with the plant currently operating at 88% capacity). The possibility of an additional fiscal boost due to the approval of a new infrastructure plan and a more robust spending package in the US would help maintain vigorous demand. Although it still must be discussed, it is likely that at least some measures in this front are approved. If this is the case, supply may keep exhibiting problems to satisfy the high levels of demand.

In non-manufacturing, we believe the outlook is also favorable, surpassing our expectations at the beginning of the year. Although the last [trade balance report](#) showed lower imports after relevant gains in March, we think dynamics have improved. So far, our call is that domestic demand is recovering faster, with an additional boost especially in consumption and, to a lesser extent, investment. Although the former should be supported by employment gains and a [historical flow in remittances](#), the second could stay somewhat behind, impacted by uncertainty in several fronts.

In this backdrop, we expect activity to maintain good dynamism in the remainder of 2Q21, supporting our view of an acceleration of 1.1% q/q in the period's GDP. This would support [our full-year forecast of a 5.9% expansion](#), with dynamism from abroad still as the main driver, on top of greater tailwinds from domestic-facing sectors.

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