IMEF's PMI surveys – The slowdown of activity deepened in August

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- ***IMEF* Manufacturing PMI (Aug, sa): 51.3pts; Banorte: 51.8pts; previous: 51.9pts**
- ***IMEF* Non-manufacturing PMI (Aug, sa): 50.1pts; Banorte: 51.5pts; previous: 52.3pts**
- **Worsening COVID-19 conditions seem evident in both indicators, albeit more clearly in non-manufacturing, without ruling out also an impact in manufacturing given persistent disruptions to supply chains**
- **In manufacturing, 'deliveries' and 'new orders' fell strongly, while 'inventories' and 'production' were better**
- **In non-manufacturing, all components were lower, highlighting the decline in 'new orders' and 'production'**
- **The report suggests greater headwinds for domestic demand into 3Q21, inserting modest downside risks for GDP growth in the second half of the year**

***IMEF's* PMIs suggest a deeper slowdown in August.** The manufacturing indicator reached 51.3pts, below the 51.9pts seen in the previous month. The latter figure was revised lower, with the first print at 52.2pts. Non-manufacturing stood at 50.1pts, with a stronger correction lower (-2.2pts) and in expansion territory only by an inch. In our view, these dynamics were driven by two main factors: (1) A further deterioration in epidemiological conditions, which in turn led to higher restrictions and cautiousness in the population –which, in turn, has a greater impact in the non-manufacturing indicator; and (2) the persistence of supply chain disruptions on scarcity of raw materials as well as greater challenges for international trade due to the closure of key ports in China, affecting mostly the manufacturing sector. Although these results point towards an extension of the economic recovery, we believe the pace will be lower as some downside risks have materialized.

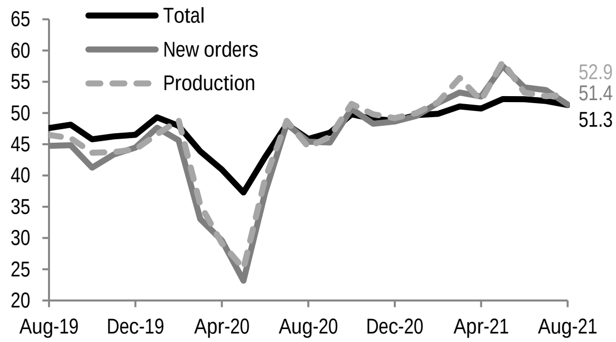
A difficult backdrop for manufacturing remains. As already mentioned, this indicator reached 51.3pts, .6pts below revised figures for June. Performance inside was mixed, with strong variations –both up and down– in several components. On the weak side we note 'deliveries' (-5.4pts), in contrast with the strong uptick in 'inventories' (+3.7pts). In our view, supply chain conditions do not seem to have normalized as the latter even reversed some of the gains observed in recent months. Reports continue about a plethora of problems (including in semiconductors), with some experts arguing that these will continue in 2022. For the former, we also see as relevant that news of railway blockades continued, which came on top of the abovementioned issues in trade. On other components, 'new orders' fell 2.3pts, which we believe is related to higher orders, with buyers less willing to buy more goods. Despite of this, 'production' picked up at the margin even with reports of some stoppages in the auto sector. Lastly, and possible more closely related to the virus and restrictions, 'employment' declined by 1.1pts

IMEF's manufacturing indicator
Seasonally adjusted figures

	Aug-21	Jul-21	Difference
Manufacturing	51.3	51.9	-0.6
New orders	51.4	53.7	-2.3
Production	52.9	52.7	0.2
Employment	49.9	51.0	-1.0
Deliveries	45.3	50.7	-5.3
Inventories	57.7	54.0	3.7

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing keeps falling. This indicator stood at 50.1pts from 52.3 in July –revised marginally downwards, by 0.6pts. The four components declined, although with two of them more precipitously. These were 'new orders' (-5.1pts) and 'production' (-3.1pts). In our view, this seems to reflect a stronger impact from the pandemic's 'third wave' and is consistent with the new high in daily cases at the middle of the period. Despite of this, mobility indicators have stayed resilient, in our view partially explaining more modest adjustments in 'employment' (-0.4pts) and 'deliveries' (-0.7pts). Although the indicator has fallen in each of the last three months, the adjustment has been more modest than in previous waves, in our view supporting our call that the recovery will continue, but at lower rates.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Aug-21	Jul-21	Difference
Non-manufacturing	50.1	52.3	-2.2
New orders	50.1	55.2	-5.1
Production	49.5	52.6	-3.1
Employment	50.0	50.4	-0.4
Deliveries	50.1	50.9	-0.7

Source: IMEF

The report suggests a more complicated environment for domestic demand in the third quarter. In our view, results point to a broad deceleration, although particularly concerning for domestic demand as it could be moderating at a fast pace in 3Q21 after a relatively strong performance during the first half of the year. In turn, this could be related to the worsening evolution of the pandemic, with daily cases reaching new historical highs several times during the month. In our view, its most relevant effect could be in consumer and business confidence, given that additional restrictions to activity so far have been limited. This contrasts with previous waves. Hence, higher uncertainty could affect the marginal propensity to spend due to precautionary measures. As a result, we will keep looking closely to confidence and domestic demand indicators to gauge if this is materializing. On a more positive note: (1) Daily contagions have started to moderate after recent highs; and (2) we have recently received more vaccine shipments, which could help to accelerate inoculations given that a deceleration was seen throughout the last month.

In non-manufacturing, we are still monitoring fundamentals closely, including employment –with good results so far despite confusion about the outsourcing reform, which comes into force today–, wages and remittances, among others. We remain concerned about inflation dynamics due to its effect on real incomes, especially in goods within the core. We also do not rule out that the beginning of in-person lessons in schools could have an effect in the recovery of employment (despite July's participation rate already recovering to pre-pandemic levels) and even in mobility levels.

In manufacturing, the environment remains challenging on limits to growth from the supply side as well as some idiosyncratic factors. Among the latter we highlight recent accidents at Pemex that took a toll on production temporarily, reports about difficulties in transportation on railway blockades in Michoacán and uncertainty because of differences in labor issues and rules of origin in the USMCA, among the most relevant. Globally, goods-producing companies are still facing a difficult environment for the adequate supply of key inputs, high transportation costs and other disruptions because of COVID-19. In this backdrop, August's ISM manufacturing in the US, released today, showed that all manufacturing segments remain affected by record disruptions despite continued dynamism (as the indicator increased 0.4pts, to 59.9pts).

We maintain our view that the economy will grow sequentially for the rest of the year, albeit at a more modest pace. Given the decline to contraction territory of the non-manufacturing indicator and other timely data about the third quarter, we believe that risks are skewed slightly to the downside. Moreover, it will be very important to follow closely what happens to domestic demand in coming months to assess if the deceleration is high enough to have enough implications for our growth outlook.

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