

IMEF's PMI surveys – A better start for activity in the last quarter of the year

- **IMEF Manufacturing PMI (Oct, sa): 50.7pts; Banorte: 50.5pts; previous: 49.9pts**
- **IMEF Non-manufacturing PMI (Oct, sa): 52.1pts; Banorte: 51.2pts; previous: 50.4pts**
- **We note the rebound and upward revision of both indicators, reaching expansion territory. Despite of different dynamics by components, we highlight higher ‘new orders’ in both**
- **In manufacturing, ‘production’ and ‘employment’ rose slightly. Meanwhile, ‘deliveries’ declined 2.4pts while ‘inventories’ rebounded 3.3pts, likely with stronger adjustments due to problems on supply chains**
- **In non-manufacturing, all components were higher, with ‘production’ leading gains by climbing 3.5pts. In our opinion, the improvement on COVID-19 conditions supported the recovery**
- **In line with our expectations, figures point to a better performance in 4Q21 after the sequential decline of the previous quarter. Despite of this, some risks for growth remain**

IMEF's PMIs rebounded in October. The manufacturing indicator reached 50.7pts, improving from 49.9pts in the previous month, which was in turn revised marginally higher. Meanwhile, non-manufacturing stood at 52.1pts from 50.4pts with a more significant acceleration. We highlight that both were above the 50pts threshold, especially noting the former, which had fallen below it in September. Overall, results are favorable and point to a rebound of activity in October. In our opinion, this is consistent with the improvement in epidemiological conditions since late August, on top of being joined by an uptick in confidence levels, both from consumers and businesses. In turn, this seems to have benefited services the most. Nevertheless, some adverse factors remain, among them: (1) Supply chain issues, including in China with a rebound in cases in some regions; (2) consumer price pressures, especially in energy; and (3) fears of a sharper-than-expected global deceleration.

Signs of an improvement in manufacturing, although supply issues remain. As mentioned, the indicator stood at 50.7pts, 0.8pts higher than the revised figure for the previous month (at 49.9pts). Specifically, we highlight that the increase was driven by ‘new orders’, up 3.5pts. This is consistent with a backdrop in which demand levels remain vigorous, especially from the US and ahead of the holiday shopping period at the end of the year. Also, ‘employment’ and ‘production’ advanced, suggesting better current conditions. Meanwhile, ‘deliveries’ (-2.4pts) and ‘inventories’ (3.3pts) showed relevant adjustments. In our opinion, higher volatility in the latter two categories keeps reflecting supply chain disruptions, with these triggering additional challenges for planning orders. Recent comments from experts keep suggesting that this situation will extend at least into 1H22.

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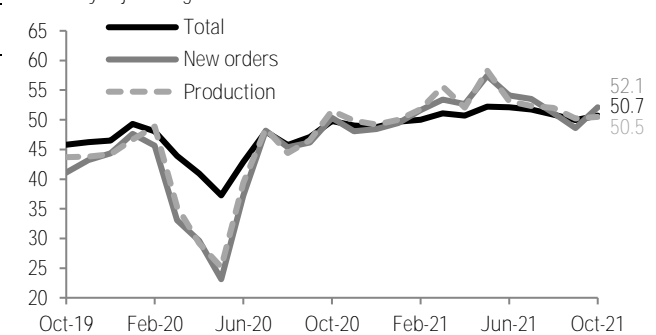
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IMEF's manufacturing indicator
Seasonally adjusted figures

	Oct-21	Sep-21	Difference
Manufacturing	50.7	49.9	0.8
New orders	52.1	48.6	3.5
Production	50.5	50.2	0.3
Employment	50.8	49.9	0.9
Deliveries	46.3	48.7	-2.4
Inventories	54.6	51.3	3.3

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Larger rebound in the ‘non-manufacturing’ indicator. The indicator recovered to 52.1pts from 50.4pts in September –also revised marginally higher, by +0.3pts–. All components improved, with gains led by ‘production’ as it went up 3.5pts to 53.5pts. In our opinion, the improvement of COVID-19 conditions helped the recovery. In this sense, we highlight that mobility indicators recovered further, already reaching pre-pandemic levels. ‘New orders’ were also strong, rising 2.4pts. These were followed by ‘employment’, from 50.5pts to 51.4pts. Lastly, ‘deliveries’ improved by 0.1pts to 49.7pts, although the only component staying below 50pts.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Oct-21	Sep-21	Difference
Non-manufacturing	52.1	50.4	1.7
New orders	53.9	51.5	2.4
Production	53.5	50.0	3.5
Employment	51.4	50.5	0.9
Deliveries	49.7	49.6	0.1

Source: IMEF

Figures point to better dynamics in 4Q21. After the [sequential decline of GDP in the previous quarter](#), the rebound in both indicators suggests that October may have been the resumption of the recovery. Despite of the latter, full-year growth has already been affected, prompting us to revise our forecast to 5.7% from 6.2% previously. This is consistent with the latest Banxico survey, which showed a cut in the forecast for the first time since the recovery began, from 6.2% to 6.0%. This figure could be cut even further considering that some analysts did not adjust their forecast before the release of the 3Q21 GDP at the end of last week.

In this sense, recent news also point to a slight improvement. On bottlenecks, we highlight that: (1) The Biden administration announced that the Long Beach and Los Angeles ports will operate 24/7 in an attempt to reduce waiting times; and (2) the reopening of the US land border with Mexico and Canada on November 8th, which in our opinion could help relieve some of the labor scarcity in said country and boost economic dynamism at border cities. On the former, a recent report by local newspaper *Reforma* suggests that manufacturing companies are facing issues by congestion in said ports, which comes on top of some issues in Pacific ports (e.g. Manzanillo and Lázaro Cárdenas).

In this backdrop, we believe it will be very important to see performance of ‘new orders’, ‘deliveries’ and ‘inventories’ ahead of year-end sales. Specifically, fears prevail of additional supply shocks which could impact performance and translate into additional price pressures. In the short-term, October’s ISM manufacturing in the US stood at 60.8pts from 61.1pts previously. Although the level is still strong, components were mixed, with declines in ‘new orders’ and ‘production’, while ‘employment’, ‘paid prices’ and ‘inventories’ rose. All of this suggests demand remains high, although it could be increasingly affected by inflation. In addition, logistical and overall supply issues continued.

Going to non-manufacturing, we believe some risks remain. Virus’ dynamics remain key despite the last wave not having an impact as strong as in previous occasions. Specifically, it will be very important for the number of cases to remain low in the winter, especially ahead of the holiday shopping season and higher tourism, which could be reflected in mobility numbers. On the latter, data from *Google* shows that it already is at pre-pandemic levels. In addition, we believe governments will remain focused on keeping the virus under control, with big metropolitan areas like Mexico City and others in the State of México –to name a few– in ‘green’ according to the traffic light indicator. Overall, the outlook in this front seems favorable. On a more negative note, we think inflationary pressures could be impacting growth, especially as they concentrate on basic need items such as food and energy. In this backdrop, we will look closely to sales results during *El Buen Fin* (Mexico’s Black Friday), although it will be challenging to interpret them given that last year this discount season was extended due to COVID-19. In addition, we are watching closely the approval process of the *2022 Spending Budget* (with a deadline on November 15th) given that the proposal includes more direct transfers in social programs, the upcoming announcement of the increase to the minimum wage, and employment dynamics (with [September’s data still weak](#), but awaiting an improvement in the last quarter of the year).

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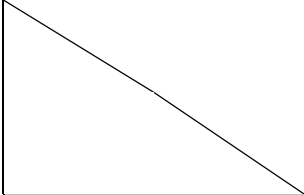
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