

IMEF's PMI surveys – A more modest advance of the economy in November

- **IMEF Manufacturing PMI (Nov, sa): 50.3pts; Banorte: 51.0pts; previous: 50.7pts**
- **IMEF Non-manufacturing PMI (Nov, sa): 50.1pts; Banorte: 52.3pts; previous: 51.8pts**
- **Both indicators decelerated relative to the previous month, although staying in expansion territory for a second consecutive period. In both cases, we highlight the moderation in ‘new orders’**
- **In manufacturing, ‘production’ was the only component higher. On the contrary, the most significant declines were in ‘inventories’ (-3.1pts) and ‘deliveries’ (-2.1pts), likely reflecting persistent supply chain problems**
- **In non-manufacturing, all subcomponents fell. Nevertheless, we note the 3.6pts decline in ‘production’, suggesting that domestic demand weakness prevails**
- **Despite of this, today’s results, as well as other information for October, supports our call of a recovery of economic activity in 4Q21 after the sequential contraction seen in the third quarter**

IMEF's PMIs moderated in November. The manufacturing indicator reached 50.3pts, below the 50.3pts of the previous month, without meaningful revisions. The non-manufacturing stood at 50.1pts from 51.8pts. Despite of this, both remained above the 50pts threshold which separates expansion from contraction. In this sense, these results are positive and suggest an extension of the economic recovery through November. In our view, this is consistent with better pandemic conditions, a broader reopening and even a boost from the discount season, benefitting companies and consumers alike. Nevertheless, some challenges remain in place, such as; (1) Strong price pressures for consumers and company inputs; (2) the persistence of supply chain problems, despite some efforts to mitigate them, especially in the US; and (3) renewed fears about the pandemic due to new variants. Considering that the latter has worsened just some days ago, its impact in the period is likely to have been very modest.

Manufacturing is still in a difficult spot. As already mentioned, the indicator stood at 50.3pts, 0.4pts lower than the previous month. Only the ‘production’ component went up, from 51.2 to 52.0pts. The most significant reductions were in ‘inventories’ (-3.1pts) and ‘deliveries’ (-2.1pts). In addition, ‘new orders’ declined by 1.2pts to 50.9pts, which suggests that conditions in the sector will remain difficult. Specifically, supply chain problems are still an important headwind that limits growth, with higher prices also increasingly affecting the outlook.

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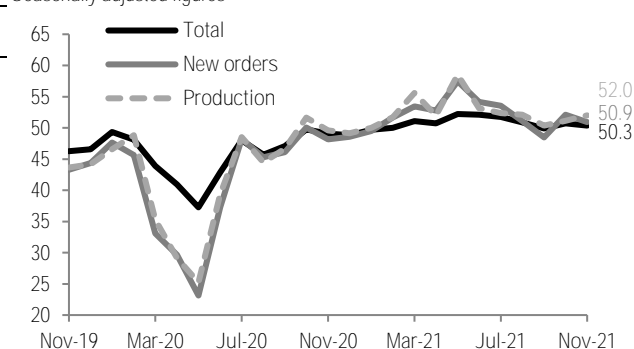
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IMEF's manufacturing indicator
Seasonally adjusted figures

	Nov-21	Oct-21	Difference
Manufacturing	50.3	50.7	-0.4
New orders	50.9	52.1	-1.2
Production	52.0	51.2	0.9
Employment	49.7	50.4	-0.6
Deliveries	44.3	46.4	-2.1
Inventories	51.0	54.0	-3.1

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing decelerated more strongly. The indicator moderated to 50.1pts from 51.8pts in October –in turn revised lower by 0.3pts–. Although still above 50pts, this slowdown suggests that the boost from better conditions surrounding the pandemic has likely waned. This is the case even though the number of cases is still trending lower and the ‘traffic light’ indicator is at its best levels since it was introduced. In this respect, all components deteriorated, with gains the strongest fall in ‘production’ as it went down by 3.6pts to 50.0pts. In addition, ‘new orders’ declined 1.8pts, while employment backtracked by 0.9pts. In our view, this points to relatively weak domestic demand conditions. Specifically, it is our take that extension of price pressures could have affected consumers’ purchasing power and overall dynamism.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Nov-21	Oct-21	Difference
Non-manufacturing	50.1	51.8	-1.8
New orders	51.6	53.4	-1.8
Production	50.0	53.6	-3.6
Employment	50.4	51.3	-0.9
Deliveries	48.6	49.8	-1.2

Source: IMEF

The recovery in 4Q21 still looks in fragile territory. Today’s figures, as well as other available indicators for October, suggest that the economy improved after the [third quarter’s sequential contraction](#). As mentioned in other documents, we believe this was driven meaningfully by better epidemiological conditions, in turn resulting in higher mobility –currently already above those seen before the pandemic in key categories– that allowed a wider reopening.

Nevertheless, lingering risks could hit dynamism again and seem to maintain a fragile environment. Among them, we note renewed fears about a new COVID-19 strain (‘Omicron’), especially as winter approaches. In this backdrop, there is not enough information yet to gauge how contagious or severe it can be. Nevertheless, the warning of the WHO and the reaction of sanitary authorities – as well as financial markets– suggest that it could indeed be a serious risk. This adds up to other ongoing challenges that are highly correlated with the virus, especially supply chain problems and its impact on supply, which could also lead to higher inflation pressures.

On supply chains, the most recent reports suggest the situation remains difficult despite modest relief in some fronts. Efforts include the meeting held between president Biden and businesspeople –including the CEOs of the main companies in the country– to coordinate towards resolving some of these problems. This is in addition to the Commerce Department information request to producers of semiconductors. Regarding this, Secretary Gina Raimondo mentioned they are starting to see better delivery times. Locally, railway blockades in the state of Michoacán were lifted since the beginning of November, a situation that could also help improve logistics at the port of Lazaro Cárdenas.

Regarding prices, their effect can be seen both among companies and consumers, affecting profit margins and purchasing power, respectively. The latest inflation data has shown additional increases in food, albeit with a moderation in energy. These have reacted modestly to the release of strategic reserves announced by various countries, although with the highest effect in recent days due to fears induced by the new variant on growth prospects.

Lastly, going to non-manufacturing, we believe virus' dynamics will remain key for the outlook, especially after the winter season which could result in a new wave of contagion. This was seen last year and at the beginning of 2021. Nevertheless, its effect could be more modest given the progress made in vaccinations, despite having to wait for more information on the effectiveness against 'Omicron'. In terms of fundamentals we have had better news, noting a strong rebound in October's employment, along better results in remittances and credit, which could extend further in coming months.

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