IMEF's PMI surveys – Another decline in June, with manufacturing in contraction

July 1, 2022

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- ***IMEF* Manufacturing PMI (Jun, sa): 49.2pts; Banorte: 49.3pts; previous: 50.8pts**
- ***IMEF* Non-manufacturing PMI (Jun, sa): 51.8pts; Banorte: 50.8pts; previous: 52.2pts**
- **Both indicators moderated, although highlighting that manufacturing returned to contraction territory. In this sense, we believe that it was affected by global shocks, in addition to signs of an economic slowdown in the US. Meanwhile, price pressures could have dampened non-manufacturing**
- **In manufacturing, weakness concentrated in 'production' and 'new orders', with 'employment' as the only category higher. Volatility persisted in 'deliveries' and 'inventories'**
- **Non-manufacturing, had similar dynamics, with 'employment' consolidating, while the rest of the sectors were lower**
- **These results suggest that the rate of the expansion of the economy moderated throughout the quarter, consistent with our call of lower sequential GDP growth in 2Q22**

Second consecutive month of declines for *IMEF's* PMIs. Manufacturing fell to 49.2pts, with the previous figure unchanged. Non-manufacturing declined to 51.8pts from 52.2pts, with the previous figure revised slightly lower. This is the second straight month of declines for both after four consecutive increases and above the 50pts threshold. With this result, manufacturing fell into contraction territory for the first time since the beginning of the year. We believe one of the main drivers was prevailing weakness in US industry, with signs of a moderation of local demand. This was reflected in *S&P Global*'s manufacturing PMI, with a 4.3pts decline to 52.7pts, its lowest level in nearly two years, In addition, weakness centered in 'new orders'. According to the report, part of this is explained due to lower demand, with both consumers and businesses impacted by higher prices and high uncertainty. This was already seen across several confidence indexes in the country. For non-manufacturing, we consider that domestic demand is still dynamic, bolstered by relatively solid fundamentals, including the latest figures for remittances and credit. However, there are several negative factors, such as the last employment report –showing a decline in jobs in services and the primary sector–, on top of persistent price pressures, which we expect to extend for longer. Moreover, we do not rule out an impact from the increase in COVID-19 contagions in the second half of the month.

Manufacturing impacted by the performance of the sector in the US. Except for employment, all sectors declined. 'Production' dropped the most, to 48.5pts (-4.3pts), followed by 'new orders', which also fell to contraction at 47.6pts (-2.9pts). 'Employment' advanced 0.3pts, reaching 50.5pts. This suggest that gains in hard figures in previous months could extend further. Logistics components remained volatile.

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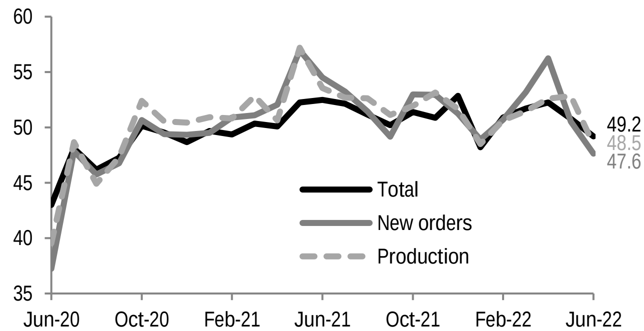
'Deliveries' reversed May's progress towards contraction (47.5pts; -3.2pts). Meanwhile, inventories decreased marginally to 51.1pts (-0.2%), consistent with prevailing international trade disruptions.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Jun-22	May-22	Difference
Manufacturing	49.2	50.8	-1.6
New orders	47.6	50.5	-2.9
Production	48.5	52.8	-4.3
Employment	50.5	50.2	0.3
Deliveries	47.5	50.7	-3.2
Inventories	51.1	51.3	-0.2

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing falls again with inflation and the pandemic against it. The pace of the slowdown in 'new orders' increased, reaching 53.8pts (-1.0pts), while production recorded its third month of decline, standing at 52.3pts (-0.8pts). 'Employment' was the only positive category, up to 51.8pts (0.3pts), which could indicate a slight rebound. We believe the main drag for this indicator continues to be the persistence of inflation, which could be impacting household's real disposable income. An additional impact could have come from the absence of social programs payments due to the electoral ban, remembering that they will resume in July (with the last payment made in February-March). Finally, deliveries fell to 48.4pts from 48.9pts (-0.4pts), again the only sector below the 50pts threshold for fifth month in a row.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Jun-22	May-22	Difference
Non-manufacturing	51.8	52.2	-0.3
New orders	53.8	54.9	-1.0
Production	52.3	53.1	-0.8
Employment	51.8	51.5	0.3
Deliveries	48.4	48.9	-0.4

Source: IMEF

Current dynamics suggest the recovery moderated in 2Q22, although we expect the economy to keep growing for the rest of the year. We believe that today's results, on top of what we already know for the rest of the quarter, validate our view that activity kept growing, although at a more moderate pace than in 1Q22. Following this, we expect dynamism to continue in the second half of the year, recognizing both challenges and opportunities. On the external front, even though inflation in the US remains high and is likely to reach its peak in the third quarter of the year, we see a moderation towards the end of 2022. This should be favorable for the reactivation of economic activity in that country. Additionally, we believe consumption dynamism in 3Q22 can improve and increase its pace for the last quarter, benefited by: (1) Labor market strength; (2) higher wages; and (3) available household savings because of stimulus checks received in the pandemic. In this context, we think the manufacturing sector could regain its footing, with stronger export demand from said country.

In local drivers, the Mexican auto industry remains affected by the shortage of inputs, but the level of domestic sales has improved since the end of 2021. Hence, the demand forecast for the rest of the year remains positive, considering that the lack of inventories in previous months caused its decline. According to AMIA, the strategy to increase the presence of vehicles assembled in Mexico in the US market is giving results, supported by higher interest from Asian companies to establish assembly lines in our country. We should mention that this is related to the fulfillment of rules of origin and regional content guidelines within the USMCA. In this context, and according to the Mexican Association for Private Industrial Parks (AMPIP in Spanish), 18 Asian companies have signed projects so far in 2022, translating into 200,000 square meters of new industrial buildings. This should lead to higher dynamism for employment, and industrial activity more broadly, for the remainder of the year.

For non-manufacturing, we believe its performance in the third quarter of the year may be helped by the resumption of payments from social programs, as well as a solid performance of remittances –highlighting that they will probably maintain a good pace for the rest of the year. However, we remain attentive to the evolution of the domestic labor market, trying to gauge if the recent bump was just a bad month or marks the beginning of a trend change. Finally, we believe inflationary pressures during the rest of the year will continue limiting household consumption growth, not ruling out that they offset the boost from the aforementioned factors.

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