

IMEF's PMI surveys – Positive signals at the start of 3Q22

- **IMEF Manufacturing PMI (Jun, sa): 52.2pts; Banorte: 50.1pts; previous: 49.3pts**
- **IMEF Non-manufacturing PMI (Jun, sa): 52.2pts; Banorte: 52.3pts; previous: 51.8pts**
- **Both indicators were stronger, erasing losses of the previous month. Manufacturing was higher, likely benefited by better trade conditions. Meanwhile, services were likely favored by the resumption of social programs payments**
- **In manufacturing, all items improved, highlighting renewed dynamism in 'new orders' and 'production'. Once again volatility persists in categories related to logistics, with a relevant swing in 'inventories'**
- **The increase in non-manufacturing centered in 'production' and 'deliveries', while 'employment' was the only one lower, albeit with just a marginal drop**
- **The results suggest that activity has benefited from the resilience of domestic demand and some external factors. In addition, these figures support our projection of additional economic progress in the third quarter of the year**

A rebound in IMEF's PMIs, setting a positive note at the beginning of the quarter. Manufacturing climbed to 52.2pts, with a marginal upward adjustment in June (by 0.1pts to 49.3pts). Meanwhile, non-manufacturing rose to 52.2pts, with previous data unchanged. After two months down, both indicators rebounded, although they are still below the level reached at the beginning of the second quarter. Manufacturing returned to expansion, a positive surprise considering that its US equivalent (from *S&P Global*) continues with a downward trend, standing at 52.2pts from 52.7pts. Said report highlighted losses in 'new orders', impacted by weaker demand conditions. Meanwhile, cost pressures seem to be easing, although still climbing at the margin. Despite softer indicators in the US, we believe demand remains somewhat resilient, which on top of more favorable trade conditions –with looser virus restrictions in China and lower transportation costs–, should continue to support local manufacturing. Regarding non-manufacturing, we believe consumer fundamentals have allowed domestic demand to keep progressing. Specifically, we see strength in remittances and consumer credit, with employment resilient. In addition, we believe services' strength at the end of 2Q22 may continue, which should favor jobs. Another positive development was the resumption of payments associated to social programs, which were halted for three months due to the electoral ban. Nevertheless, our concerns remain on prices, which despite some favorable developments, are likely to keep climbing, especially for consumers. As such, risks for shifts in consumption patterns are high, with people possibly giving an added preference to basic consumption.

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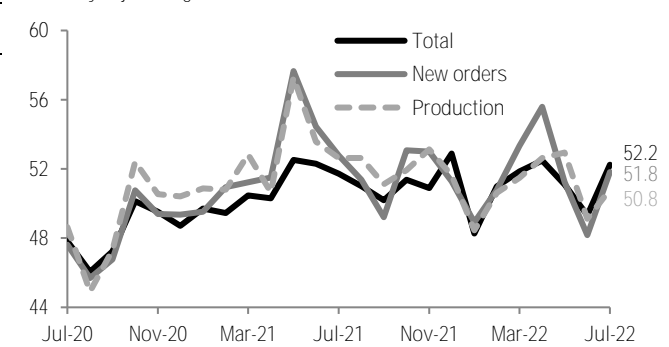
Manufacturing returns to expansion. All components stayed above the 50pts threshold. In this context, increases in ‘new orders’ (51.8pts; +3.6pts) and ‘production’ (50.8pts; +1.7pts) stood out. ‘Employment’ stringed six months in expansion, adding 0.1pts to 50.4pts. Regarding logistics, volatility remains high. ‘Deliveries’ increased 2.8pts, climbing to 50.6pts, not enough to erase losses from the previous month. Lastly, ‘inventories’ increased significantly (+8.4pts) to 59.9pts, with supply management issues still likely impacting figures.

IMEF’s manufacturing indicator
Seasonally adjusted figures

	Jul-22	Jun-22	Difference
Manufacturing	52.2	49.3	2.9
New orders	51.8	48.2	3.6
Production	50.8	49.1	1.7
Employment	50.4	50.3	0.1
Deliveries	50.6	47.8	2.8
Inventories	59.9	51.5	8.4

Source: IMEF

IMEF’s PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing recovers slightly. Despite not falling to contraction in the last six months, one of the components remains below 50pts (‘deliveries’). However, it is still relatively consistent with pandemic-related shocks, as daily cases reached 39.1 thousand in early July as part of the fifth COVID-19 wave, moderating since then. On the flip side, and consistent with other positive developments, ‘new orders’ (54.3pts; +0.4pts) and ‘production’ (53.8pts; +1.3pts) improved at a healthy pace. Lastly, the only component lower was ‘employment’, albeit just slightly considering its -0.1pts decline, standing at 51.7pts.

IMEF’s non-manufacturing indicator
Seasonally adjusted figures

	Jul-22	Jun-22	Difference
Non-manufacturing	52.2	51.8	0.3
New orders	54.3	54.0	0.4
Production	53.8	52.5	1.3
Employment	51.7	51.8	-0.1
Deliveries	49.5	48.4	1.1

Source: IMEF

Domestic demand resilience and low inventories in the US may boost indicators in 3Q22. We believe today’s results support our belief that the economy will keep recovering, with positive signs from both domestic and external sources. As such, dynamism is likely to continue in the short-term despite increasing risks of a global recession amid central bank tightening which could weigh on activity towards the end of the year. Considering this, it seems feasible that these indicators remain in expansion. However, we cannot rule out more volatility that could impact figures ahead.

In this context, we believe the main risk for manufacturing is the possibility of weaker US demand. This has been partly signaled by 2Q22 GDP, with consumption softer than in the first quarter. In addition, signs of a deceleration in industry and prevailing price pressures could further dampen dynamism. However, labor market strength, coupled with high savings rates, should act as a support. Considering recent inventory drawdowns in the US, short-term support is likely, especially ahead of the holiday season in which demand increases significantly. As such, domestic manufacturing will likely keep growing, although it ultimately remains tied to the US economy. As has been pointed out in other reports, nearshoring efforts continue boosting domestic industries, allowing Mexican manufacturers to keep diversifying. Moreover, we are watching closely to trade issues in the framework of USMCA, both in the auto sector (set to have a verdict sometime between late August and September) as well upcoming deliberations on energy.

As for non-manufacturing, we believe the strength of consumer fundamentals will favor its performance. Regarding external factors, , [remittances have not lost steam](#) despite more challenging conditions in the US. Quite the opposite, with the first half of the year very encouraging. On domestic factors, we find positive signs. Based [on 2Q22 preliminary GDP figures](#), domestic demand has room to continue advancing and maintain positive rates for the rest of the year. We think that employment will remain a key driver. In particular, the job market still seems to show relative slack, with space for additional gains. Lastly, and as has been the case in recent reports, the main headwind remains high inflation, especially as we believe it will reach cycle highs during 3Q22.

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