

IMEF's PMI surveys – Both indices fell to contraction territory in May

- **IMEF Manufacturing PMI (May, sa): 49.4pts; Banorte: 50.9pts; consensus: 51.5pts; previous: 52.0pts**
- **IMEF Non-manufacturing PMI (May, sa): 49.4pts; Banorte: 51.6pts; consensus: 51.5; previous: 50.8pts**
- **We highlight that both indices stood in contraction territory for the first time since November 2018, with strong downward revisions in services and all components in the latter sector below the 50pts threshold**
- **In manufacturing, weakness was concentrated in the production and employment components, while new orders held up relatively strong**
- **Today's report suggests a broader-based deceleration in activity, although with weakness still concentrated in industry**

IMEF's PMI's strongly reverse gains and stand in contraction territory.

The Mexican Institute of Financial Executives (*IMEF*) published its PMI surveys, where both the manufacturing and non-manufacturing indicator stood at 49.4 points, below consensus expectations of 51.5pts in each of them. It is worth noting that this is the first time that both of them stand below the threshold of 50pts that separates expansion from contraction since November 2018. Although we expected these indices to partially reverse the strong gains of the previous month, the magnitude was significantly higher. In our view, this increases downside risks for growth, particularly as not only manufacturing but also services are in contraction.

All manufacturing components on the downside. The weakness in this sector was broad-based, as all components ended lower. In particular, we highlight the monthly decline of 3.8pts in employment and 3.3pts in production, with both of them standing in contraction territory. On the other hand and more in line with our expectations, inventories and deliveries also adjusted down meaningfully. In our view, this suggests that the temporary surge in both components during the previous month was due to the distortion caused by the negative impact of the delay in freight transportation at the Northern Border as opposed to higher dynamism. This is also more likely taking into account that the US PMI manufacturing index was also lower in May, a situation confirmed further by today's ISM report. All in all, the report suggests that there are still considerable headwinds in the scenario ahead for this sector.

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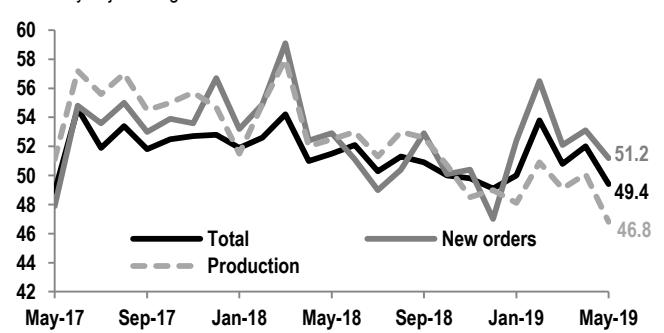
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IMEF's PMI manufacturing index
Seasonally adjusted figures

| | May-19 | Apr-19 | Difference |
|----------------------|-------------|-------------|-------------|
| Manufacturing | 49.4 | 52.0 | -2.6 |
| New orders | 51.2 | 53.1 | -1.9 |
| Production | 46.8 | 50.1 | -3.3 |
| Employment | 45.1 | 48.9 | -3.8 |
| Deliveries | 52.9 | 55.4 | -2.5 |
| Inventories | 51.9 | 55.4 | -3.5 |

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

Significant revision to the downside in the non-manufacturing index. The indicator decreased 1.4pts to 49.4pts from 50.8pts, lower than the 2.6pts decline in the manufacturing sector. Nevertheless, this was due to the significant revision in previous months, with an accumulated decline in Jan-Apr of -2.5pts, of which -1.6pts were in the latest month (from 52.4pts in the previous report to 50.8 currently). In this respect, the revised series is more consistent with GDP figures that showed a quarterly contraction in the sector. Taking a look at the breakdown, deliveries saw the strongest decline (-3.3pts), followed by production (-2.8pts). Moreover, the most looking-forward component, new orders, plunged by a hefty 2.5pts to 49.2pts, in contraction for the first time since November and with its second consecutive monthly decline.

Non-manufacturing PMI index
Seasonally adjusted figures

| | May-19 | Apr-19 | Difference |
|--------------------------|-------------|-------------|-------------|
| Non-manufacturing | 49.4 | 50.8 | -1.4 |
| New orders | 49.2 | 51.7 | -2.5 |
| Production | 47.5 | 50.3 | -2.8 |
| Employment | 49.1 | 49.3 | -0.2 |
| Deliveries | 49.3 | 52.6 | -3.3 |

Source: IMEF

The report suggests a more broad-based deceleration in activity. Contrary to recent months in which weakness was more concentrated in manufacturing, today's report signals the possibility of a broader-based softness in activity. In particular, services looks increasingly challenged in spite of being supported by resiliency in domestic demand. In our view, this is an early warning sign about the possibility of a contraction of 2Q19 GDP. We continue seeing more headwinds in manufacturing relative to services, with fundamentals in the latter still looking stronger. In this respect, we believe manufacturing remains more vulnerable due to: (1) Uncertainty about the US threat of increasing tariffs to all goods from Mexico, which could start in June; and (2) the effect on overall external demand from higher downside risks to global growth given the recent escalation of trade tensions between US and China. On the contrary, services are likely to remain relatively more supported by real wage gains and dynamism in remittances, among others.

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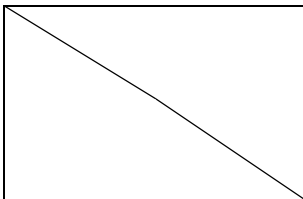
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|  | Reference |
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