IMEF's PMI surveys – Weakness extends into November

- ***IMEF* Manufacturing PMI (November, sa): 46.0pts; Banorte: 47.9pts; consensus: 47.7pts; previous: 46.4pts**
- ***IMEF* Non-manufacturing PMI (November, sa): 48.6pts; Banorte: 48.6pts; consensus: 48.1pts; previous: 48.7pts**
- **Contrary to our expectations, the manufacturing index fell again despite the normalization of operations in some auto sector companies**
- **In particular, both the 'inventories' and 'production' subcomponent exacerbated their decline, while 'employment' and 'new orders' recovered only modestly. As a result, this indicator has accumulated seven months in contraction territory**
- **The non-manufacturing inched modestly lower from upwardly revised figures in the previous month. This contrasts with other data suggesting a better performance of domestic demand in 4Q19, along reports of strong sales during *El Buen Fin* (Mexico's Black Friday)**
- **The report shows that economic activity remains weak, extending the limited performance observed since several quarters. In this respect, we believe that overall dynamism in the fourth quarter will be limited as business confidence remains low, even taking into account some positive signs that suggest a gradual improvement**

***IMEF's* PMI's on the weak side in November.** The manufacturing index stood at 46.0pts, below our estimate of 47.9pts and consensus at 47.7pts. Contrary to our expectations, the indicator did not rebound despite the normalization of operations in the auto after temporary shocks in October, as portrayed by trade balance and industry-specific figures. The non-manufacturing index was a bit lower, coming at 48.6pts from an upwardly revised figure of 48.7pts in the previous month (from 48.1pts originally). Both indicators have added seven consecutive months in contraction, reaffirming that activity remains limited and is likely to stay that way at least during the last quarter of the year, with our current GDP forecast for the period at -0.2% yoy.

Manufacturing fails to rebound, despite the normalization in autos. It should be mentioned that, among the temporary shocks in the previous period, the most relevant was GM's strike in the US, which ended on October 25th. At least two plants in Mexico halted operations as key imported inputs were missing due to the strike. Therefore, it is surprising to see this muted result, with slight revisions lower in the previous two months. The 'inventories' subcomponent, which was the most impacted in October, extended its decline, going from 46.5pts to 44.4pts. Moreover, the 'production' component was also lower. On the other hand, we note that 'new orders', which is the most forward-looking, was higher by 0.6pts to 43.4pts, with employment the most positive, at 44.4pts from 43.3pts. Similar to other countries, this may suggest that the worse for industry may be over, with Mexico actually quite resilient as it has benefitted by the trade war between the US and China, although signaling that some headwinds still prevail.

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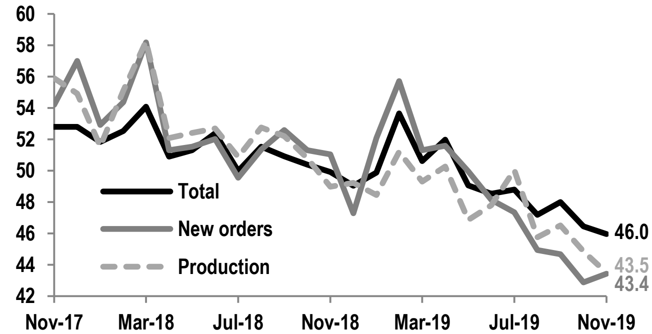
IMEF's PMI manufacturing index
Seasonally adjusted figures

	Nov-19	Oct-19	Difference
Manufacturing	**46.0**	**46.4**	**-0.5**
New orders	43.4	42.9	0.6
Production	43.5	44.9	-1.4
Employment	44.4	43.3	1.1
Deliveries	53.7	53.7	0.1
Inventories	44.4	46.5	-2.1

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index stabilizes at low levels. The indicator inched lower by 0.1pts, hovering close to its current level for the last four months and still in contraction territory. Although matching our forecast, we judge the result as weak. In our view, this is in contrast with other figures that suggest domestic demand is improving gradually, including non-oil consumption goods imports within the trade balance and retail sales. Moreover, news reports affirm that sales during *El Buen Fin* (Mexico's version of Black Friday, which this year took place from November 15-18) were better than expected, with preliminary data by the private sector estimating growth of around 7% yoy.

In terms of the main components and considering this backdrop, product deliveries were down by 0.4pts to 49.6pts, with all other mostly stable. It should be noted also that all subcomponents are now below the 50.0pts threshold, suggesting that activity overall is still quite weak.

Non-manufacturing PMI index
Seasonally adjusted figures

	Nov-19	Oct-19	Difference
Non-manufacturing	**48.6**	**48.7**	**0.0**
New orders	49.2	49.1	0.1
Production	49.1	49.1	0.0
Employment	48.3	48.2	0.1
Deliveries	49.6	50.0	-0.4

Source: IMEF

Activity will likely remain weak in 4Q19, with higher confidence still needed. The report failed to confirm that October's decline was mainly due to temporary shocks that affected the auto industry. In this respect, manufacturing indicators in the US have provided mixed signals. On the one hand, the US PMI manufacturing rebounded to 52.6pts in November, highest since April and driven by the pickup in production and new orders. On the other, the ISM manufacturing for the same month surprised to the downside at 48.1pts, highlighting the decline in new orders, including exports. In our view, the sector would benefit from lower uncertainty in case of a phase one agreement between the US and China. Despite negotiations continuing, a deal has not been reached yet, let alone hints about its possible scope. Moreover, work on USMCA has accelerated, with political willingness for an agreement before year-end, although some challenges remain. In our view the sector will stay relatively resilient, particularly in exports, although more positive news are still necessary in these fronts for a more definitive move higher.

Regarding the non-manufacturing sector, we have also had relatively good news lately, suggesting that weakness may have bottomed out. Nevertheless, today's report is more consistent with stabilization at low levels. Sectors such as construction (which is included in this index by IMEF) have stayed weak. We believe that private consumption may improve from here, helping the indicator. However, other important components of aggregate demand, such as investment, have failed to provide encouraging signals. Moreover, business confidence remains depressed and the unemployment rate has ticked higher, providing supporting evidence that stronger dynamics, if they materialize, are likely to build up only gradually. In this respect, we will remain focused on the possible benefit stemming from: (1) Government initiatives to stimulate the economy, such as the agreement for private-sector investment (see: "*The government announced the first phase of its Infrastructure Program*", <pdf>, November 26, 2019); and (2) other measures, such as monetary policy easing by the central bank, which we expect to keep cutting the reference rate towards 6.00% by year-end 2020. This situation may help credit growth (which has decelerated, according to most recent figures) and consumption. Overall, we maintain our view that private consumption will improve gradually, despite risks for the economy still skewed to the downside.

Analyst Certification

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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