IMEF's PMI surveys – Strong decline in manufacturing but still in expansion

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- ***IMEF* Manufacturing PMI (March, sa): 50.2pts; Banorte: 51.3pts; consensus: 52.0pts; previous: 54.0pts**
- ***IMEF* Non-manufacturing PMI (March, sa): 51.2pts; Banorte: 51.8pts; consensus: 51.7; previous: 50.9pts**
- **The manufacturing index decreased 3.7pts with respect to the previous month. We highlight that the steepest fall was in the new orders component, while employment also decreased significantly**
- **The non-manufacturing index was a touch stronger, accumulating four consecutive months in expansion territory**
- **Figures were broadly in line with other indicators suggesting that private consumption has supported domestic demand, while the external sector (more closely related to manufacturing) has seen a slightly weaker performance**
- **Today's report is consistent with our view of a more resilient domestic sector, but overall modest growth in 1Q19**

***IMEF's* manufacturing PMI falls in March.** The Mexican Institute of Financial Executives (*IMEF)* published its PMI surveys, where the manufacturing indicator stood at 50.2 points, below our 51.3pts forecast and even weaker than consensus at 52.0pts. The figure of the previous month, which was at its highest since June 2017, was revised lower from 54.3 to 54.0pts. Moreover, the weighted-sum stood at 49.6pts, 3.9pts lower than in February.

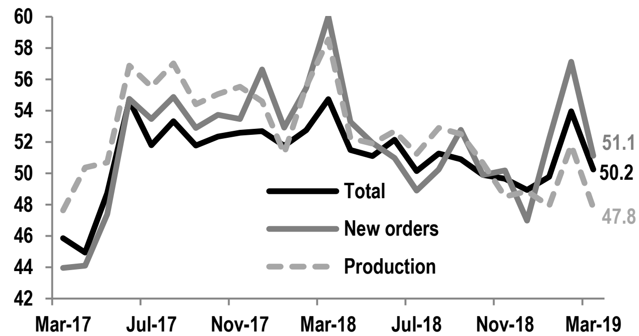
All the components of the manufacturing index decreased significantly, with the exception of deliveries (+0.7pts). In our view, the latter could be a byproduct of the normalization of the negative impact of supply chain disruptions that took place in January and the first half of February. In this respect and broadly in line with our expectations, we highlight that inventories declined a hefty 5.4pts to the 50.0pts threshold after reaching 55.4pts in the previous month, which was its second highest historical figure after July 2012. On the other hand, we noted that new orders (-6.0pts to 51.1pts) and employment (-5.0pts to 46.6pts) were among those with the highest correction lower. In conjunction with this latter sub-index, production returned to contraction territory after a brief respite in February, falling 4.0pts to 47.8pts. Overall, it is our take that the signal is that the sector will be less dynamic this quarter, with the indicator most likely distorted in the previous month due to recent local and transitory shocks.

IMEF's PMI manufacturing index
Seasonally adjusted figures

	Mar-19	Feb-19	Difference
Manufacturing	**50.2**	**54.0**	**-3.7**
New orders	51.1	57.1	-6.0
Production	47.8	51.8	-4.0
Employment	46.6	51.6	-5.0
Deliveries	52.6	51.9	0.7
Inventories	50.0	55.4	-5.4

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index ticked up slightly. The indicator increased 0.3pts to 51.2pts, adding four consecutive months in expansion and at its highest since September. In contrast to manufacturing, the "deliveries" component was actually the only one with a decline, falling 1.5pts to 50.3pts. On a more positive note, both new orders and employment increased, particularly the latter (+4.3pts) to 50.9, which could be a favorable signal as it has recently not been able to hold consistently in expansion. Moreover, production also increased slightly to 50.2pts. It is worth noting that all components ended above the 50.0pts threshold, signaling a relatively strong overall performance of the domestic sector.

Non-manufacturing PMI index
Seasonally adjusted figures

	Mar-19	Feb-19	Difference
Non-manufacturing	**51.2**	**50.9**	**0.3**
New orders	52.8	52.4	0.4
Production	50.2	50.0	0.3
Employment	50.9	48.6	2.3
Deliveries	50.3	51.8	-1.5

Source: IMEF

Today's report is consistent with our view of a more resilient domestic sector, but overall modest growth in 1Q19. After surprising positively in the previous month, manufacturing returned to its recent trend, consistent with our view that it will manage to grow this quarter but at a more modest pace, impacted by lower dynamism in the US and global trade volumes, among other factors. In contrast, services seem to be stronger, in our view related to real wage growth, lower inflation at the margin and still positive growth in employment, among others. All in all, the result is in line with our broad outlook of private consumption remaining as the driver of Mexican economy, albeit at a more modest pace, while industry is likely to struggle more in spite of the upward surprise in January's hard data, mainly due to construction but with manufacturing subdued in its annual comparison.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis			
Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy			
Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy			
Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt			
Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454