

## **IMEF's PMI surveys – Signaling a slightly better performance by the end of 3Q19**

- **IMEF Manufacturing PMI (September, sa): 48.1pts; Banorte: 48.5pts; consensus: 47.9pts; previous: 47.3pts**
- **IMEF Non-manufacturing PMI (September, sa): 48.1pts; Banorte: 48.6pts; consensus: 48.2; previous: 48.1pts**
- **We believe that both indicators suggest an improvement in activity relative to August, signaling a better end for 3Q19. Nevertheless, they have stayed in contraction territory for five consecutive months**
- **In manufacturing, we highlight that both the ‘production’ and ‘employment’ subcomponents were stronger, while ‘new orders’ stayed low. Non-manufacturing remains limited, will all components still below the 50pts threshold**
- **The report is consistent with a slight improvement in activity by the end of 3Q19, led by the manufacturing sector, while domestic demand seems to have stabilized at relatively low levels**

**IMEF's PMI's improved in September, but remain low.** The Mexican Institute of Financial Executives (*IMEF*) published its PMI surveys. The manufacturing index stood at 48.1pts, slightly below our estimate of 48.5pts. The non-manufacturing index was unchanged at 48.1pts, but the August data was revised higher by 0.4pts (along slight upward adjustments in the previous two months). In this respect, it is our take that these results indicate a slightly better performance when compared to August. Nevertheless, both added five consecutive months in contraction, so activity in 3Q19 remained limited despite an improvement at the margin. Taking a look at the breakdown, we highlight the stronger performance in the ‘production’ subcomponent within manufacturing, consistent with trade balance figures suggesting current resiliency despite trade tensions. On the other hand, non-manufacturing activity seems to have stabilized at low levels, with all subcomponents in contraction, a situation we believe suggests that the deceleration in domestic demand prolonged further into the end of the third quarter.

**Manufacturing improved sequentially, but signals caution ahead.** We stress that the most relevant increases were observed in the ‘deliveries’ and ‘employment’ subcomponents, up by 2.4pts and 2.1pts, respectively, which can be considered somewhat lagged. Additionally, the ‘production’ sub-index was higher by 0.6pts. In contrast, new orders actually fell at the margin to 45.0pts, reaching a new, three-year low. In our view, this suggests that the outlook remains cautious overall, with the latest data from the US also showing that headwinds for manufacturing remain in place. Moreover, the latter also warns that external demand may weaken, which is likely a result of high uncertainty coupled with renewed bouts of stress between the US and China. Broadly speaking, the report shows a better current performance in an environment that could potentially worsen going forward.

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### IMEF's PMI manufacturing index

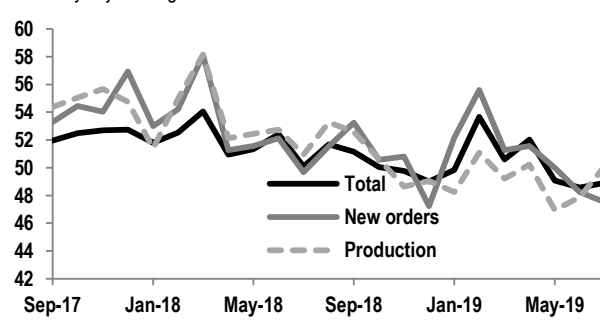
Seasonally adjusted figures

	Sep-19	Aug-19	Difference
<b>Manufacturing</b>	<b>48.1</b>	<b>47.3</b>	<b>0.7</b>
New orders	45.0	45.1	-0.2
Production	46.8	46.2	0.6
Employment	48.4	46.3	2.1
Deliveries	50.2	47.7	2.4
Inventories	53.2	53.3	-0.1

Source: Banorte, IMEF

### IMEF's PMI manufacturing index

Seasonally adjusted figures



Source: Banorte, IMEF

**The non-manufacturing index seems to be stabilizing.** The indicator was unchanged when compared to the revised figures of the previous month. Nevertheless, August data was revised up by 0.4pts, with an accumulated revision for the last three months of 0.7pts. In this respect, the report suggests a stronger performance despite remaining at low levels. We should also mention that all sub-indices were lower with the exception of deliveries, which was unchanged. In this respect, stability at the headline is a likely byproduct of the method for seasonal adjustment. Similar to the manufacturing index, the steepest decline was in the ‘new orders’ subcomponent, falling 0.9pts and reversing part of August’s gain. This decline was followed by ‘production’, which declined 0.8pts. Overall, we believe this indicator reinforces the signal of the previous month of a possible stabilization in domestic demand, albeit at more modest absolute levels.

### Non-manufacturing PMI index

Seasonally adjusted figures

	Sep-19	Aug-19	Difference
<b>Non-manufacturing</b>	<b>48.1</b>	<b>48.1</b>	<b>0.0</b>
New orders	47.1	48.0	-0.9
Production	48.9	49.7	-0.8
Employment	47.5	47.8	-0.3
Deliveries	49.9	49.9	0.0

Source: IMEF

**In our view, the report suggests slightly better performance by the end of 3Q19.** In manufacturing, we think an additional improvement is likely, with today’s increase consistent with recent US data and Mexico’s trade balance showing exports’ resiliency despite global headwinds. Regarding the former, the final US manufacturing PMI for September increased to 51.1pts from 50.3pts in the previous month. According to *IHS Markit*, the best performance was in the ‘production’ and ‘new orders’ components, although only modestly and with business confidence still “relatively gloomy” due to muted demand conditions. Nevertheless, the quarterly average indicates the worst performance since the same period of 2009. In this sense, today’s manufacturing ISM for the same period plunged to 47.8pts from 49.1pts in August, at a low since the financial crisis. Despite of the latter, the ‘imports’ subcomponent picked up to 48.1pts, highest since last June. We believe this is consistent with anecdotal evidence suggesting that Mexico may be benefitting from US substitution away from China goods as tariffs increase.

In this respect, it may well be the case that the US imposes additional levies to the latter country on October 15<sup>th</sup>, in which the current rate of 25% on US\$ 250 billion of imports could be increased to 30%. Our view is still that trade tensions will probably have a net negative impact in spite of possible gains for our country due to this substitution effect, with less of a shock than previously anticipated given the latest data on manufacturing exports.

On the non-manufacturing subsector, signs about domestic demand have remained mixed to negative. As mentioned before, the most concerning fact is the deceleration in the pace of formal job creation, which has stayed positive in annual terms but fell below 2% in August. On a more positive front, dynamism in remittances and credit, along downward surprises in inflation, are also favorable in terms of the likely performance of private consumption, which in our view could be better in 2H19. Nevertheless, so far it has failed to gather dynamism, with today's report reaffirming that performance has likely stabilized, but at low levels.

Apart from these, and in terms of economic policy, Banxico began lowering its reference rate in August, we expect the easing cycle to continue this year (with the rate expected to end at 7.25%) and in 2020. For details about our monetary policy outlook, see: "*Banxico – Two doves, just a 25bps cut*", [pdf](#), September 26<sup>th</sup>, 2019. Moreover, the Federal Government has confirmed they will use about MXN 130 billion in resources of the *Stabilization Fund* to support activity, while aiming for a slightly lower primary surplus target (see: "*2020 Budget – Fiscal responsibility continues in 2020, with some optimism in underlying assumptions*", [pdf](#), September 9<sup>th</sup>, 2019). Last but not least, we continue expecting a depreciation of the Mexican peso towards 20.30 per dollar by the end of this year and to 21.30 by year-end 2020, which could also help induce more consumption of domestically-produced goods relative to imports, while averting strong inflation pressures. Despite the likely positive impact from these measures, we believe it is necessary to observe an improvement in business confidence to have better conviction about a more positive outlook for domestic demand, with all subsectors still quite weak until August.

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