

IMEF's PMI surveys – Signals of a deceleration at the beginning of 4Q18

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- **IMEF Manufacturing PMI (October, sa): 49.7pts; Banorte: 51.7pts; consensus: 51.7pts; previous: 51.3pts**
- **IMEF Non-manufacturing PMI (October, sa): 50.2pts; Banorte: 50.9pts; consensus: 51.2; previous: 51.2pts**
- **The manufacturing index plunged 1.6pts, entering contraction territory for the first time since May 2017. In this respect, all components fell significantly, highlighting that the steepest contraction was in the new orders sub-index**
- **Moreover, the non-manufacturing index decreased 1.0pts, suggesting modest dynamism in domestic demand**
- **In our view, today's results signal that the economy could decelerate in the last quarter of the year after a very positive performance in 3Q18**

IMEF's manufacturing PMI posted a significant decrease in October. The Mexican Institute of Financial Executives (IMEF) just published its PMI surveys for October, where the manufacturing indicator stood at 49.7 points, below our 51.7pts forecast and September's revised figures and in contraction territory. The weighted sum matched the headline figure from a previous level of 52.5pts.

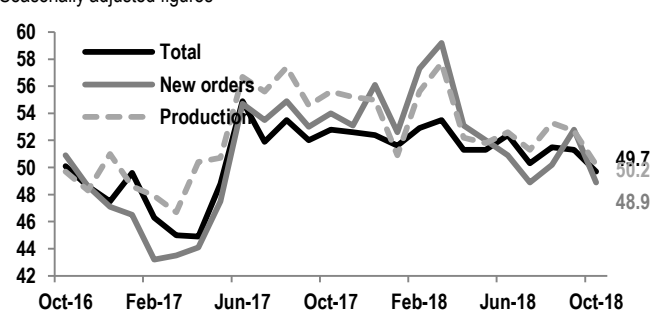
The manufacturing index was hit by a relatively steep decrease in forward looking components. Contrary to our expectations of a slight increase in this index, both the new orders and employment components showed the steepest declines, falling by 3.9 and 2.8pts, respectively. In this sense, the decline below the 50.0pts threshold was not consistent with strength in the US October PMI manufacturing index, which actually reached a maximum since last May. Although we thought some payback in both of these components was likely due to their elevated levels, we were surprised by their magnitude, particularly given strong export data by the end of September and lower trade tensions that signaled resiliency going forward. As a result of the latter, we now believe manufacturing will not grow as much as we were expecting before the report, more so considering that global trade and China's economic activity seem to be cooling off.

IMEF's PMI manufacturing index
Seasonally adjusted figures

	Oct-18	Sep-18	Difference
Manufacturing	49.7	51.3	-1.6
New orders	48.9	52.8	-3.9
Production	50.2	52.7	-2.5
Employment	49.0	51.8	-2.8
Deliveries	50.4	51.3	-0.9
Inventories	50.0	51.5	-1.5

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index reached 50.2 points, suggesting modest dynamism in domestic demand. This number implies a 1.0 point monthly decrease from September's revised figures. The weighted sum of the components stood at 50.4pts, slightly better but still weak overall. Similar to the manufacturing index, the new orders component was the most impacted, falling by 3.5pts to its lowest since July, when it was in contraction territory. Moreover, production was hit with a 1.2pts decrease from the previous month, standing at 50.8pts. Last but not least, employment saw a marginal increase, albeit remains as the only component below the 50.00pts level.

From these results, it is our take that domestic demand is likely to show a relatively modest pace of growth in coming months despite low slack in the labor market. Moreover, we also highlight that volatility and uncertainty has recently increased, reflected in losses for the Mexican peso which is typically associated by consumers with a more difficult economic environment.

Non-manufacturing PMI index

Seasonally adjusted figures

	Oct-18	Sep-18	Difference
Non-manufacturing	50.2	51.2	-1.0
New orders	50.1	53.6	-3.5
Production	50.8	52.0	-1.2
Employment	49.2	49.1	0.1
Deliveries	51.6	51.3	0.3

Source: IMEF

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