

IMEF's PMI surveys – Weakness in both indicators extends in June

- **IMEF Manufacturing PMI (June, sa): 49.0pts; Banorte: 48.9pts; consensus: 49.0pts; previous: 49.2pts**
- **IMEF Non-manufacturing PMI (June, sa): 47.7pts; Banorte: 50.1pts; consensus: 49.0; previous: 48.7pts**
- **We highlight that both indices stood in contraction territory for second consecutive month and the “new orders” components were among those with the highest declines**
- **In manufacturing the performance was mixed, with improvement in production and employment although both still in contraction**
- **In services weakness was broad-based, with the indicator at a minimum not seen since February 2017**
- **The report is consistent with a complicated and uncertain environment, highlighting the signs of lower dynamism in domestic demand**

IMEF's PMI's extended their decline in June. The Mexican Institute of Financial Executives (*IMEF*) published its PMI surveys. The manufacturing index stood at 49.0pts, in line with consensus, while the non-manufacturing fell to 47.7pts, below expectations. It is worth noting that this is the second consecutive month in which both indices are in contraction territory, with their performance revised downwards for the last two months. In particular, we highlight that services ended at its lowest point since February 2017. This is consistent with other signs of a moderation in domestic demand such as the 0.3% m/m contraction of services according to April's IGAE, along the moderation in the pace of formal job creation in this sector (at 2.8% yoy in May, hovering near lows since the beginning of 2014). In this context, we consider that the result reinforces the prevalence of downside risks for GDP growth.

Mixed performance in manufacturing. On a positive note, the production and employment components improved sequentially, with the first from 47.1 to 48.5pts and the second from 43.8 to 46.0pts. Moreover, inventories went up by 0.9pts to 53.2pts. On the contrary, new orders fell to contraction (49.8pts) for the first time this year. In this context, the June PMI and ISM manufacturing indicators in the US are practically at lows since the end of 2016, suggesting that weakness in this sector will continue. In our view, high external uncertainty remains, including in terms of the trade relationship with the US even after the agreement to avoid the imposition of tariffs to all Mexican exports, with a rarefied political environment that has complicated the approval of USMCA. Broadly speaking, the report is consistent with our expectation that the sector keeps facing a challenging environment going forward.

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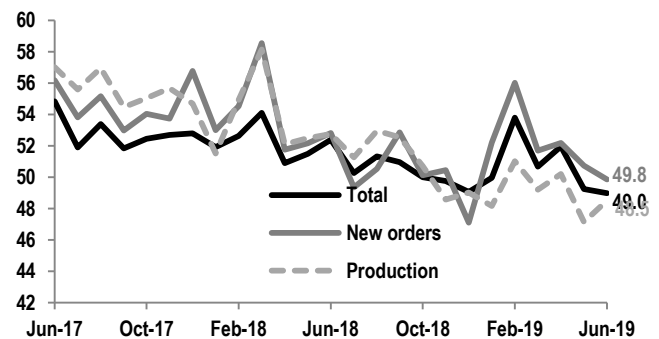
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IMEF's PMI manufacturing index
Seasonally adjusted figures

	Jun-19	May-19	Difference
Manufacturing	49.0	49.2	-0.3
New orders	49.8	50.7	-0.9
Production	48.5	47.1	1.4
Employment	46.0	43.8	2.2
Deliveries	51.3	52.3	-1.0
Inventories	53.2	52.3	0.9

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index extends its weakness for third consecutive month. The indicator fell 0.9pts to 47.7pts from 48.7pts. Moreover, the three previous months were revised downwards for an accumulated 0.6pts, suggesting a more profound deceleration relative to the signal provided the previous month. All components were weaker. Specifically, we noted the 1.9pts reduction in employment to 46.9pts, followed by new orders which contracted 1.3pts to 47.2pts. Lastly, both production and deliveries declined by 1.0pt, reaching 46.0pts and 48.9pts, respectively.

Non-manufacturing PMI index
Seasonally adjusted figures

	Jun-19	May-19	Difference
Non-manufacturing	47.7	48.7	-0.9
New orders	47.2	48.5	-1.3
Production	46.0	47.0	-1.0
Employment	46.9	48.8	-1.9
Deliveries	48.6	49.6	-1.0

Source: IMEF

The report suggests weakness in activity could extend into 2Q19. After the decline of 0.2% q/q in 1Q19 GDP and the modest rebound in activity during April according to IGAE, we believe that the dynamic of both of these indicators suggests that activity remained limited to the upside during the quarter. Although part of the deceleration is the result of the typical slowdown in government spending in the first year of a new administration, the report suggests a more protracted weakness of the economy. In particular, we highlight that the outlook for services and domestic demand looks more challenging. In this sense, several consumption indicators have started to show a more important deceleration, particularly job creation but also the moderation in banking credit and remittances growth. Going forward, risks to our 2019 GDP forecast of 1.5% yoy are clearly skewed to the downside, with high local and global uncertainty which is likely to keep liming activity.

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