IMEF's PMI surveys – Weakness in services despite pickup in manufacturing

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- ***IMEF* Manufacturing PMI (June, sa): 52.6pts; Banorte: 50.5pts; consensus: 50.8pts; previous: 51.3pts**
- ***IMEF* Non-manufacturing PMI (June, sa): 51pts; Banorte: 50.8pts; consensus: 50.8; previous: 51.6pts**
- **The 1.3 points expansion in the manufacturing index was explained by an increase in four out of the five sub-indices**
- **Moreover, the non-manufacturing index fell by 0.6 points, given the reduction in three sub-indices**
- **Uncertainty about the renegotiation of NAFTA could continue to weigh on the index in the coming months**

***IMEF's* manufacturing PMI posted a 1.3 points expansion.** The *IMEF* just published its PMI surveys for June, where the manufacturing indicator stood at 52.6 points, above our 50.8 forecast. Today's figure implies a 1.3 points increase from May's revised figures. Moreover, the weighted sum of the individual components within the manufacturing series posted a 1.1 points growth. Taking a look at the breakdown, the rise of the index was explained by an expansion in four of the five sub-indices.

We highlight the 4.2pts growth in the inventories component, as well as the 0.8 and 0.7pts rise in production and employment, respectively. In addition, deliveries edged-up 0.4pts. By contrast, the new orders sub index posted a 0.6pts contraction. It should be noted that with these results all components stand above the 50 unit threshold.

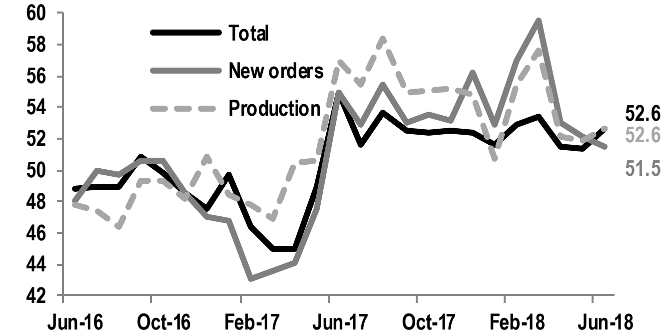
We consider that the growth in the month was partly explained by the depreciation of the exchange rate in previous months, which could have triggered a higher manufacturing production in June. However, we continue to believe that the uncertainty regarding the renegotiation of NAFTA, which could happen until the end of the year -according to the latest comments by President Trump-, could continue to weigh on the index. On the contrary, we anticipate that the dissipation of the uncertainty related to the electoral process may partially offset the negative effects mentioned previously.

IMEF's PMI manufacturing index
Seasonally adjusted figures

	Jun-18	May-18	Difference
Manufacturing	**52.6**	**51.3**	**1.3**
New orders	51.5	52.1	-0.6
Production	52.6	51.8	0.8
Employment	52.4	51.7	0.7
Deliveries	51.8	51.4	0.4
Inventories	54.8	50.6	4.2

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index stood at 51 points (seasonally adjusted figures). This number implies a 0.6 points monthly decline, which previously stood at 51.6 points. In this regard, the weighted sum of the components showed a 0.9pts contraction.

The fall comes on the back of the 2pts reduction in the production sub-index, as well as the 1.9pts contraction in the new orders component. In addition, the employment component showed a 0.09pts fall, while deliveries posted a 1pt. increase.

With these results, the employment component is the only one in the contraction zone (49.6 pts), while the new orders (51.7pts) and production (50.9pts) remain comfortably above the 50pts. Threshold looking ahead, we believe that inflation's recent trajectory could lead to an increase in the index in the following months.

Non-manufacturing PMI index
Seasonally adjusted figures

	Jun-18	May-18	Difference
Non-manufacturing	**51.0**	**51.6**	**-0.6**
New orders	51.7	53.7	-1.9
Production	50.9	52.9	-2.0
Employment	49.6	50.5	-0.9
Deliveries	50.4	49.4	1.0

Source: IMEF

Uncertainty about the renegotiation of NAFTA could continue to weigh on the index in the coming months. Taking into account the announcement of tariffs on steel and aluminum as well as the lack of positive news regarding the renegotiation of NAFTA, we believe that purchasing managers will continue to show caution until they have a clearer picture. In this regard, we expect the indices to remain above, but near the 50-point threshold.

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