IMEF's PMI surveys – Suggesting a weak outlook in both manufacturing and services

August 1, 2019

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- ***IMEF* Manufacturing PMI (July, sa): 49.6pts; Banorte: 48.6pts; consensus: 46.8pts; previous: 48.7pts**
- ***IMEF* Non-manufacturing PMI (July, sa): 47.1pts; Banorte: 47.5pts; consensus: 47.8; previous: 47.7pts**
- **Unlike recent months, the indices diverged in terms of performance, with manufacturing improving while the non-manufacturing extended its weakness. Nevertheless, both now add three months in contraction, signaling that overall activity remains weak**
- **Performance by component in manufacturing was mixed at best, with only production and deliveries higher**
- **In services, weakness was driven by the new orders component, which reached its lowest level in almost two and a half years**
- **In our view, the report suggests activity remained low and affected by uncertainty at the start of 3Q19, particularly as the forward-looking 'new orders' component was weak in both sub-indices**

***IMEF's* PMI's stayed muted in July.** The Mexican Institute of Financial Executives (*IMEF)* published its PMI surveys. The manufacturing index stood at 49.6pts, above expectations and higher than in the previous month, albeit with the latter revised lower by 0.2pts. The non-manufacturing index fell to 47.1pts, below expectations and closer to our forecast. It is worth mentioning that this is the third consecutive month in which both indices are in contraction territory, suggesting that the overall weakness in activity extended to July.

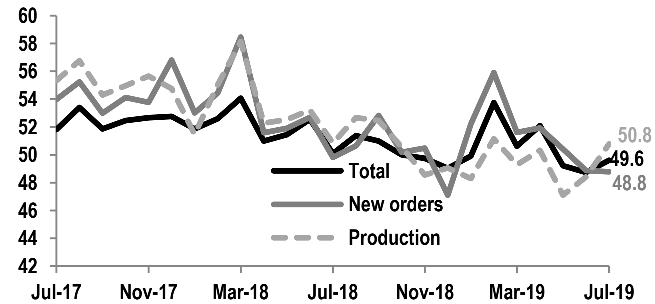
A more challenging outlook for external demand may be forming. Despite the manufacturing index increasing to 49.6pts from 48.7pts in the previous month, it has stayed in contraction. Moreover, the performance by component was mixed at best, in our view. Only production (going from 48.4pts to 50.8pts) and deliveries (50.8pts to 54.4pts) were higher. On a more negative note, "new orders", which is the most forward-looking component, inched lower by 0.1pts to a new year-to-date low. Moreover, employment fell 1.0pt to 46.2pts, with five consecutive prints in contraction. We believe that these suggest that companies are analyzing the possibility of lower external demand. In this context, the US July PMI and ISM manufacturing were also lower, with the latter reaching a new low since August 2016. Considering the deceleration in export growth according to the trade balance, as well as trade tensions around the globe, it is our take that the report remains consistent with a challenging environment going forward.

IMEF's PMI manufacturing index
Seasonally adjusted figures

	Jul-19	Jun-19	Difference
Manufacturing	**49.6**	**48.7**	**0.9**
New orders	48.8	48.9	-0.1
Production	50.8	48.4	2.4
Employment	45.2	46.2	-1.0
Deliveries	54.4	50.8	3.6
Inventories	52.6	52.7	-0.1

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index declined further. The indicator fell 0.7pts, going from 47.7pts to 47.1pts, its lowest level since early 2017. Contrary to the previous month, not all components were weaker. Nevertheless, we highlight that new orders plunged 2.5pts to 44.4pts, a minimum in almost two and a half years. Moreover, production declined 1.3pts to 45pts. The most positive rebound was observed in deliveries (+1.4pts) followed by employment (+1pt), albeit with the latter in contraction territory in twelve out of the last thirteen months. Overall, we believe that the results reaffirm signals from hard data that have shown a protracted deceleration in domestic demand.

Non-manufacturing PMI index
Seasonally adjusted figures

	Jul-19	Jun-19	Difference
Non-manufacturing	**47.1**	**47.7**	**-0.7**
New orders	44.4	46.9	-2.5
Production	45.0	46.3	-1.3
Employment	48.1	47.1	1.0
Deliveries	50.4	49.0	1.4

Source: IMEF

In our view, the report suggests that activity remained weak at the start of 3Q19. We are particularly concerned that the most forward-looking component in both sub-indices, new orders, declined further**.** Regarding manufacturing, it is worth noting that it remained in contraction even after news broke early in June of an agreement to avoid US tariffs to all Mexican exports, which were followed by a positive review of efforts to tackle migration issues from the US administration. For this sector, we think headwinds seem to have increased, with the deceleration in export growth in June -according to the trade balance report- signaling weaker external demand. Additionally, the US announced today additional tariffs to China, which even if they are potentially positive for Mexico (given that China is our competitor in the US market), we believe its net effect is negative as it depresses overall trade volumes. On services, we are particularly concerned about its recent downward trend, in a context in which formal job creation has been declining and high uncertainty seems to be impacting domestic demand more forcefully. Moreover, business confidence has stayed low, pressuring private investment while consumption has stayed positive, but likely slowing down given recent employment dynamics, the moderation in both banking credit and remittances growth.

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