IMEF's PMI surveys – Signs of improvement at the turn of the year

February 5, 2020

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- ***IMEF* Manufacturing PMI (December, sa): 48.2pts; Banorte: 47.1pts; consensus: 47.1pts; previous: 47.0pts**
- ***IMEF* Non-manufacturing PMI (December, sa): 50.3pts; Banorte: 49.3pts; consensus: 49.0pts; previous: 48.9pts**
- **In line with our expectations, the manufacturing index recovered, with a broad improvement among its components. Nevertheless, the indicator accumulates nine months in contraction territory**
- **The non-manufacturing index was also stronger, returning to expansion after eight months below the 50pts threshold. Inside, new orders and deliveries drove the increase**
- **We consider that the report is positive, signaling a potentially better economic outlook at the start of the year**

***IMEF's* PMI's post a positive performance at the turn of the year.** The manufacturing index stood at 48.2pts, above our estimate of 47.1pts which happened to match consensus. While we expected an improvement, its performance was more favorable, especially considering that the recovery was broadly based. The non-manufacturing index was even stronger, coming at 50.3pts, returning to positive after eight months below the 50pts threshold. However, the recovery was limited to only two components, maintaining us relatively cautious about this sector's overall performance.

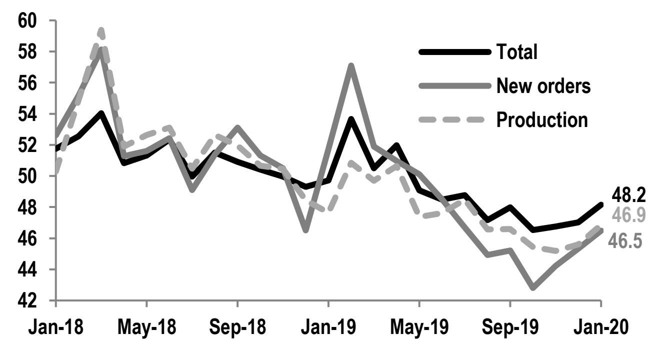
Manufacturing rebounds, with favorable underlying dynamics. The increase surprised us positively when considering some taking into account some negative signals in the US –especially Markit's manufacturing PMI–. Specifically, the 1.1pts increase was the largest since April. Inside, the 'inventories' subcomponent rebounded considerably, from 46.1pts to 49.2pts. We also highlight the increase in 'production' and 'new orders', up 1.3 and 1.1pts, respectively. On the contrary, 'deliveries' was the only one moving down, reverting back to contraction at 49.4pts. Despite the improvement, all components remain consistent with muted activity, leading us to believe there is still some lingering weakness, although with some positive signals going forward.

IMEF's PMI manufacturing index
Seasonally adjusted figures

	Jan-20	Dec-19	Difference
Manufacturing	**48.2**	**47.0**	**1.1**
New orders	46.5	45.3	1.1
Production	46.9	45.6	1.3
Employment	44.7	43.8	0.8
Deliveries	49.4	50.4	-1.0
Inventories	49.2	46.1	3.1

Source: Banorte, IMEF

IMEF's PMI manufacturing index
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing index returns above the 50pts threshold. The indicator climbed 1.4pts, strongest pick-up since August last year. While the headline suggests a much more favorable performance, the fact that the expansion was led by the 4.0pts adjustment in 'deliveries' makes us relatively cautious about the outlook. However, we give more credence to the 1.7pts increase in 'new orders', also back to positive. On the flip side, 'production' and 'employment' showed marginal decreases of -0.2 and -0.4pts, in the same order. In this context, we believe some of the recovery might be explained by the recent improvement in construction –according to the latest IP figures–, coupled with the relative strength in commerce.

Non-manufacturing PMI index
Seasonally adjusted figures

	Jan-20	Dec-19	Difference
Non-manufacturing	**50.3**	**48.9**	**1.4**
New orders	50.7	49.0	1.7
Production	48.3	48.5	-0.2
Employment	47.0	47.5	-0.4
Deliveries	54.5	50.5	4.0

Source: IMEF

Positive signs at the start of 2020. Overall, the report showed a favorable performance, with both components up and above expectations. It is our take that manufacturing could be starting to shake-off some of the uncertainty that plagued the sector last year, mainly associated to trade concerns and with both the USMCA approved by the US and the phase-one agreement reached with China as positive developments. This signal seems to be more consistent with the ISM manufacturing, which actually climbed in the month, back above the 50pts threshold after 5 months in contraction. These signals lead us to believe that, while the sector might still exhibit some weakness in coming months, it could gather more steam towards the end of 1Q19.

Regarding non-manufacturing, other favorable signals such as construction as well as some structurally positive drivers for consumption, could provide support going forward. These could help retail sales and other services. In addition, lower uncertainty, both globally and in the domestic front, in tandem with a reduction in borrowing costs –as Banxico is likely to continue cutting the reference rate in coming months– should also have a positive impact, via both construction –due to higher investment– and consumption.

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