

## IMEF's PMI surveys – External and domestic drivers might induce some weakness ahead

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- **IMEF Manufacturing PMI (February, sa): 49.1pts; Banorte: 47.4pts; consensus: 47.8pts; previous: 49.3pts**
- **IMEF Non-manufacturing PMI (February, sa): 48.8pts; Banorte: 49.5pts; consensus: 49.5pts; previous: 50.8pts**
- **In line with our expectations, both indicators fell albeit with higher-than-expected weakness in the non-manufacturing sector and with both back to contraction**
- **The manufacturing index added 10 months in contraction, in our view still facing headwinds ahead. In the non-manufacturing the worst performance was in the ‘deliveries and ‘new orders’ components**
- **The shock to global supply chains due to the Coronavirus outbreak is likely to represent further challenges down the road, especially to manufacturing. In non-manufacturing, the result provides a warning relative to other recent reports suggesting an improvement in domestic demand**

**IMEF's PMI's decline in February.** The manufacturing index stood at 49.1pts, higher than our 47.4pts estimate, which was slightly below consensus at 47.8pts. Although we had indeed expected a similar monthly retracement in terms of magnitude, the spread is mostly explained by a revision higher in past data. The non-manufacturing indicator was also lower, coming at 48.8pts, back below the 50pts threshold. In the latter, we highlight that the ‘deliveries’ and ‘new orders’ components were the most impacted, while only employment improved relative to January.

**No strong signs of the impact of Coronavirus, yet.** Since the start of the month, the most pressing issue has been the extent of the likely impact of the Coronavirus in activity, a situation that has strongly pressured markets. In this respect, we highlight that ‘new orders’ in manufacturing actually inched higher by 0.2pts to 47.8pts, with an adjustment lower only in ‘deliveries’ (-3.8pts). Moreover, ‘inventories’ were stronger by 3.5pts and is the only component above 50pts. In our view, this could be related to supply chain disruptions.

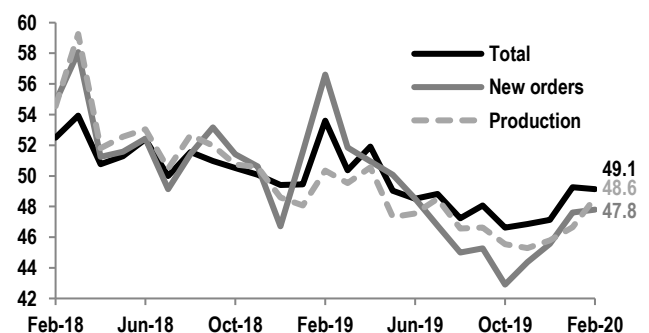
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**IMEF's PMI manufacturing index**  
Seasonally adjusted figures

	Feb-20	Jan-20	Difference
<b>Manufacturing</b>	<b>49.1</b>	<b>49.3</b>	<b>-0.1</b>
New orders	47.8	47.6	0.2
Production	48.6	46.7	1.9
Employment	46.5	46.2	0.4
Deliveries	48.7	52.5	-3.8
Inventories	52.7	49.2	3.5

Source: Banorte, IMEF

**IMEF's PMI manufacturing index**  
Seasonally adjusted figures



Source: Banorte, IMEF

The US ISM for the same month, released earlier today, also showed a slight decline, from 50.9pts in January to 50.1pts, although with ‘inventories’ lower by a significant amount, contrary to Mexico. We also highlight that ‘imports’ declined meaningfully, signaling some effect from the virus. Meanwhile and in a similar fashion, the PMI manufacturing declined relative to January, to 50.7pts. Even if this month does not show a strong impact relative to the one observed in the US, we believe more weakness is likely down the road, given restrictions already imposed in China (and to some extent, the US), along the natural lag of shipments from that country into ours.

**The non-manufacturing indicator inches back to contraction territory.** The indicator decreased 1.9pts, back to contraction after last month’s hefty recovery to 50.8pts. Last month’s data was revised 0.5pts higher, which looks consistent with other data suggesting that domestic demand may have improved by the end of 2019 and start of this year. We note that the most pressured components were ‘deliveries’ and ‘new orders’, with the former reversing back the strong 4.0pts gain registered in the previous month. In the latter, the signal is relevant as it is arguably the most forward-looking component. Employment was the only one stronger, contrasting with other signals of a further deceleration in the labor market. Overall, this sector’s figures are negative despite the upward revision of the previous month. We need more detailed data to analyze which specific sector has taken the brunt of the hit, as both construction and commerce have exhibited higher dynamism lately.

**Non-manufacturing PMI index**

Seasonally adjusted figures

	Feb-20	Jan-20	Difference
<b>Non-manufacturing</b>	<b>48.8</b>	<b>50.8</b>	<b>-1.9</b>
New orders	48.9	50.8	-1.9
Production	47.5	48.7	-1.2
Employment	49.1	47.5	1.6
Deliveries	50.7	54.6	-3.8

Source: IMEF

**Adverse external shocks to impact short-term activity.** We downgrade our previously held view that manufacturing could be in a better footing at the start of 2020, as the Coronavirus shock to the sector will likely also affect Mexico. Although we do not rule a positive substitution effect for our country, we believe the net effect will be negative. To the latter we should add the possibility of new transit restrictions at the northern border, which could spill over to transportation services. In this respect, all subcomponents could be affected, with particular focus on ‘new orders’ and ‘production’ in coming months.

In non-manufacturing, it will be important to analyze the specific sector in which weakness was concentrated. In this sense, business confidence in February fell further in construction, with the ‘adequate moment to invest’ at new lows in the series history. On the contrary, both commerce and non-financial services were better. These suggest that construction might be the driver behind the decline. Nevertheless, we will wait on hard data, especially the IP report, to validate this performance. Moreover, it will be interesting to see if services –including commerce– can extend recent gains as portrayed in other indicators such as retail sales and 4Q19 GDP.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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