IMEF's PMI surveys – Record low in non-manufacturing as COVID-19 impacts activity

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@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- ***IMEF* Manufacturing PMI (March, sa): 45.0pts; Banorte: 44.3pts; consensus: 44.7pts; previous: 48.0pts**
- ***IMEF* Non-manufacturing PMI (March, sa): 39.4pts; Banorte: 47.1pts; consensus: 45.6pts; previous: 48.6pts**
- **The manufacturing indicator declined to a low not observed in close to three years, adding 11 months in contraction territory. The strongest impact was in new orders (-13.8pts relative to February) followed closely by production (-13.3pts)**
- **On the other hand, non-manufacturing plunged to a new historical low, with all components down except for 'deliveries'**
- **Today's data suggest a contraction of economic activity in March, particularly services, and despite relatively mild domestic measures to fight COVID-19 in place. In this respect, more downside is possible in coming months as social distancing measures and suspension of non-essential activities increase further**

***IMEF's* PMI's plunge in March.** The manufacturing index stood at 45.0pts, higher than our estimate, which was below consensus expectations at 44.7pts. On the other hand, the non-manufacturing indicator surprised strongly to the downside, plunging to a new historical low of 39.4pts and significantly lower than our 47.1pts forecast. Overall and also as expected, in both indicators we highlight that most of the decline was concentrated in the 'new orders' and 'production' components, while 'employment' fell more modestly.

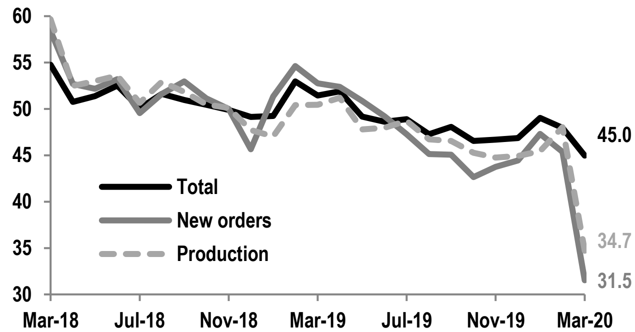
Manufacturing at lows not observed in close to three years. In particular, the indicator plunged to a minimum not seen April 2017, and is the second lowest since early 2009, in the midst of the Financial Crisis. As anticipated, the most impacted component was 'new orders', which fell 13.8pts relative to February, standing at 31.5pts. The 'production' component followed closely, going from 48.0pts to 34.7pts. In our view, both are related to global supply chain disruptions, with several companies in the US and Mexico (along other regions) suspending operations due to the COVID-19 outbreak. 'Employment' inched higher (+0.2pts) but will likely catch up in coming months. On the other hand, 'deliveries' (4.4pts) and inventories picked up (+3.3pts), with the latter surging to its second highest on record at 55.6pts, although providing a distorted signal about performance as it was likely not a result of higher demand going forward.

IMEF's PMI manufacturing indicator
Seasonally adjusted figures

	Mar-20	Feb-20	Difference
Manufacturing	**45.0**	**48.0**	**-3.0**
New orders	31.5	45.4	-13.8
Production	34.7	48.0	-13.3
Employment	46.5	46.2	0.2
Deliveries	52.7	48.3	4.4
Inventories	55.6	52.3	3.3

Source: Banorte, IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator reached a new historical low. Contrary to our expectations, this sector was more impacted than manufacturing, falling 9.2pts. As a result, the indicator reached a new historical low since the series is available, with the previous minimum at 43.9pts (observed in January 2009). In a similar fashion to the manufacturing gauge, the most significant declines were in 'new orders' (-18.1pts) and 'production' (-17.5pts). Nevertheless, employment also fell by a relevant amount (-4.9pts) and reached 44.4pts, not seen since February 2017. In this context, the decrease suggests a very weak outlook for domestic demand, which had already been quite limited even before disruptions induced by the virus.

Non-manufacturing PMI indicator
Seasonally adjusted figures

	Mar-20	Feb-20	Difference
Non-manufacturing	**39.4**	**48.6**	**-9.2**
New orders	30.4	48.5	-18.1
Production	30.3	47.8	-17.5
Employment	44.4	49.3	-4.9
Deliveries	51.6	50.8	0.9

Source: IMEF

More weakness ahead is almost certain. Today's report is consistent with an economy in contraction in March, situation that will likely exacerbate at least through April. In this respect, several news in the manufacturing sector suggest that supply chains remain heavily disrupted. Among them and just as a brief example, a series of automotive plants both in the US and Mexico have suspended operations at least until mid-April in a bid to stem contagion of the virus. To the latter, we must add cross-border restrictions at the Northern Border, increasing logistics issues even if governments have stated that their priority is to let trade flows to continue. We believe this will also impact employment, not only because of the direct effects from the virus but also due to the shock to demand levels. In this respect, the US ISM manufacturing for March, released earlier today, showed a 10pts decline relative to the previous month, to its weakest since the 2009 Financial Crisis and returning to contraction after two months above the 50pts threshold.

In non-manufacturing, we are more concerned about domestic demand after today's steep decline in the indicator, particularly as social distancing measures and suspension of non-essential activities were not very strict during the period. In this respect, at the beginning of the week the Federal Government announced the "sanitary emergency" that unlocked more stringent containment measures, along the extension of this extraordinary period at least until April 30th. As a result, an additional downturn in domestic activity is likely, as these measures will affect business sentiment, as portrayed in today's March report. We believe the high degree of domestic and global uncertainty will lead to additional declines in confidence among companies and consumers, which was already very weak in the case of businesses even before this shock.

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BANORTE

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454