IMEF's PMI surveys – Slight uptick in services in May, but still in deep contraction

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- ***IMEF* Manufacturing PMI (May, sa): 39.2pts; Banorte: 41.2pts; consensus: 41.1pts; previous: 41.0pts**
- ***IMEF* Non-manufacturing PMI (May, sa): 38.0pts; Banorte: 38.1pts; consensus: 36.9pts; previous: 35.6pts**
- **Contrary to our expectations, the manufacturing indicator declined to a new historical low, albeit after the previous month figure was revised higher. Once again, the weakest components were 'new orders' (-4.9pts relative to April) and 'production' (-1.5pts), with the remaining categories also lower**
- **In contrast, the non-manufacturing indicator went up from April's all-time low, suggesting a contraction at a more modest pace. 'New orders' increased 6.9pts, followed by 'production' at +5.3pts. However, both 'employment' and 'deliveries' were weaker**
- **Today's data is consistent with a further contraction of the economy, with special concerns about the manufacturing sector. Despite of the latter, we believe we could see a slight rebound in May, with April as the weakest month on measures to combat the COVID-19 pandemic**

***IMEF's* PMI's stay weak in May.** The manufacturing index stood at 39.2pts, below our estimate (41.2pts) which was practically in line with consensus (41.1pts). This is a new historical low, as the previous month's figure was revised higher, to 41.0pts from 40.5pts. As was the case in April, the most important declines were observed in 'new orders' and 'production', with the remaining categories also down. On the other hand, and in line with our view, the non-manufacturing indicator was modestly higher, advancing 2.3pts to 38.0pts. In this case performance was mixed, with 'new orders' and 'production' up, while 'employment' and 'deliveries' declined.

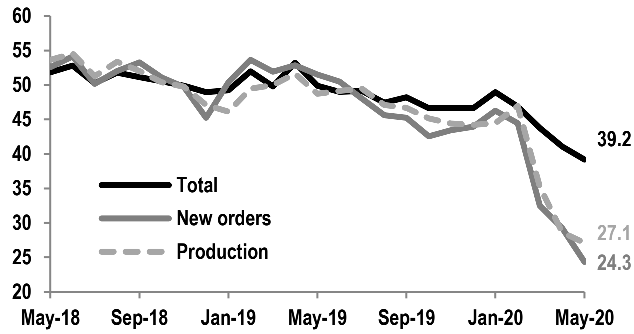
Manufacturing deeper down as industry stoppages were extended. The monthly decrease was of 1.9pts, albeit on top of the -2.7pts observed in April. As such, the indicator stood at 39.2pts. We should mention most industrial activities stayed closed, extending the suspension that began after the sanitary emergency was declared at the end of March. 'New orders' was the hardest hit, falling 4.9pts relative to April to 24.3pts. This is consistent with advanced figures in the US, with the PMI for the month showing that export orders were particularly muted in the period. 'Production' was also hit strongly, going from 28.6pts to 27.1pts. Although these were the most affected, 'employment' was also lower, reaching 42.4pts although not at a historical low. Lastly, inventories fell marginally, going from 53.8pts to 53.3pts. We believe these results indicate depressed demand, both domestic and external. Int his respect, last month we said we would focus on both 'production' and 'new orders' as the components that would likely provide more valuable information. As such, we think results were considerably weak.

IMEF's PMI manufacturing indicator
Seasonally adjusted figures

	May-20	Apr-20	Difference
Manufacturing	**39.2**	**41.0**	**-1.9**
New orders	24.3	29.2	-4.9
Production	27.1	28.6	-1.5
Employment	42.4	42.5	-0.1
Deliveries	48.4	49.7	-1.3
Inventories	53.3	53.8	-0.6

Source: Banorte, IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator rebounded modestly. The indicator went up by 2.3pts from a historical low in the previous month (which was revised an inch higher), to 38.0pts. This is still quite low, consistent with the greater impact that mobility restrictions have had in services, along with the suspension of activities in construction (which is part of this indicator) during the month. Nevertheless, it also signals a slower pace of decline when compared to April. In the monthly dynamic, the 'new orders' component was the most benefited, rising 6.9pts, albeit coming from the weakest base. It was followed by 'production', which increased 5.3pts, to 29.3pts. 'Employment' declined, albeit only by 0.3pts, reaching 41.5pts. Finally, deliveries were the strongest hit, declining 2.3pts. Nevertheless, this is the only component still above the 50pts threshold.

Non-manufacturing PMI indicator
Seasonally adjusted figures

	May-20	Abr-20	Difference
Non-manufacturing	**38.0**	**35.6**	**2.3**
New orders	29.5	22.6	6.9
Production	29.3	24.0	5.3
Employment	41.5	41.8	-0.3
Deliveries	51.7	54.0	-2.3

Source: IMEF

Still an unfavorable outlook at least for the very short term. Despite the end of the *National Period of Healthy Distance* yesterday, activity will likely remain depressed at least for the beginning of June. In particular, the latest epidemiological map shows that most of the country remains in 'red', which according to the restart indicator is the most dangerous level. In this sense, only essential activities may be carried out, still leaving a considerable amount of the economy on hold. Nevertheless, there is a silver lining at least for industry, as starting today, auto production, mining and construction (the latter positive for the non-manufacturing index) are regarded as essential activities, allowing for their reopening under strict social distancing measures. This is very relevant as auto production is one of the most important sectors within manufacturing, while also being a key driver for a recovery in some other sectors of the economy.

This, on top of some signs of a recovery in the US and other parts of the world, could enable some essential sectors suffering from a lack of inventories to resume some of their production. Going forward, as activity gathers momentum both in the US and other countries, strength from external demand, boosted by monetary and fiscal stimulus, should have favorable consequences in Mexico.

On non-manufacturing, excluding construction, the possible upside will remain limited by both restrictions to activities as well as the overall level of activity, impacting personal income and thus, dampening consumption. In this regard, we believe people will continue favoring spending on essential goods as uncertainty remains high. Tourism services will probably will remain strongly affected, with both domestic and international travel at historical lows as long as the virus continues to threaten public health. In this sense, we will continue to look to mobility indicators such as those of *Open Table*, *Apple*, and *Google*, as they seem to be correlating more strongly with this component.

All in all, these results support our call of a very strong impact to activity in 2Q20, hit by the broad deceleration of the economy. We maintain our estimate of a 7.8% y/y contraction in GDP for 2020, although we acknowledge that risks to the downside will keep piling up as social distancing measures due to the pandemic extend further.

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