IMEF's PMI surveys – The recovery seems to have extended to July

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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 (July, sa): 48.1pts; Banorte: 46.4pts; consensus: 44.0pts; previous: 43.1pts**
- ***IMEF* Non-manufacturing PMI (July, sa): 47.0pts; Banorte: 45.5pts; consensus: 45.1pts; previous: 43.0pts**
- **The manufacturing and non-manufacturing PMIs posted better than expected results, with both by considerable increases in 'new orders' and 'production', although highlighting that within the former we also saw a sizeable jump in 'employment'**
- **However, and despite both indicators approaching the 50pts threshold, the non-manufacturing PMI seems to be lagging somewhat, which could be driven by shocks to certain sectors given the extension of the pandemic**
- **Today's data is positive, suggesting that the recovery that started in June probably extended and gained additional momentum in July. Nevertheless, it is our take that the path towards the normalization of economic activity will be long and challenging**

***IMEF's* PMI's keep improving in July, but still in contraction.** The manufacturing index stood at 48.1pts, above both our estimate (46.4pts) and consensus (44.0pts), standing at its strongest since last January. This represents a 5.1pts rise relative to June, which was actually revised up by 1.1pts to 43.1pts (previous: 42.0pts). Meanwhile, the non-manufacturing added three months of increases at 47.0pts, also better relative to our forecast (45.5pts) and the market (45.1pts). This was 4.0pts higher than June's revised data. In both indicators, the components with the best performance were 'new orders' and 'production', which is consistent with the additional efforts to restart the economy. Nevertheless, both indicators still remain in contraction, which on top of signals from other indicators, suggests that the path to recovery will still be a long one.

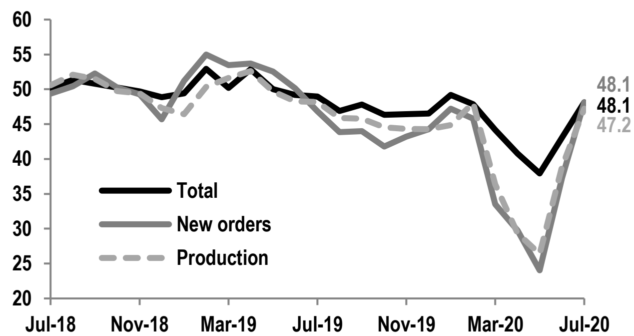
Manufacturing posts a strong advance. With the 5.1pts increase that matched last month's rise, the indicator has significantly closed the gap towards the 50pts threshold, although still in contraction territory. This is consistent with additional signs of the gradual reopening of the economy, with more industries coming back online after the lockdown, taking on a similar performance to the one seen in the US in previous months. In particular, we believe the restart in the latter country has played a key role in the speed in which different businesses have been able to resume operations, given that if external demand had remained depressed, the rebound might have taken much longer. In this sense, the relative performance of both 'new orders' (+10.9pts) and 'production' (+8.3pts), seems to support our hypothesis. In addition, there is also a positive note within 'employment' which climbed 5.1pts to 47.0pts, not seen in little over a year, possibly suggesting a recovery in jobs, particularly formal, as soon as this month. Finally, 'inventories' rose 3.6pts after the considerable decline in June, while 'deliveries' declined 0.5pts despite reports of higher mobility.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Jul-20	Jun-20	Difference
Manufacturing	**48.1**	**43.1**	**5.1**
New orders	48.1	37.3	10.9
Production	47.2	38.9	8.3
Employment	47.0	41.8	5.1
Deliveries	49.0	49.8	-0.9
Inventories	50.8	47.2	3.6

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator starts to lag behind. While this indicator rose 4.0pts and added three months to the upside, we believe it is starting to evidence some key dynamics, such as: (1) The prevailing impact to relevant sectors, mostly related to tourism and entertainment, which have not been able to resume at a higher pace given the extension of the pandemic; and (2) weak domestic demand, impacted by job losses and increased caution from consumers on higher uncertainty. In this sense, while the data is positive, it suggests that the rebound in this sector might take longer and will possibly face more challenges. Inside, all but 'deliveries' trailed back relative to manufacturing, despite also with a strong showing in 'new orders' (+7.6pts) and 'production' (+6.9pts). Meanwhile, 'employment' only edged-up 0.4pts, remaining near its all-time lows and adding to the signals of a more protracted recovery.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Jul-20	Jun-20	Difference
Non-manufacturing	**47.0**	**43.0**	**4.0**
New orders	46.3	38.7	7.6
Production	45.3	38.4	6.9
Employment	42.8	42.4	0.4
Deliveries	52.6	51.5	1.1

Source: IMEF

Favorable, albeit slow steps, at the start of 3Q20. Building up on favorable data for June, as suggested by implied figures within 2Q20 GDP, today's report suggests that the recovery extended further and gained dynamism in July. However, and as we have mentioned, the rebound seems to be showing a differentiated performance across sectors. It is our take that external demand will be a key driver for the recovery, situation which seems to be supported by today's results, with the manufacturing indicator outperforming non-manufacturing.

Within the former, and despite not seeing a substantial improvement in epidemiological conditions, manufacturing activities, as well as other industrial sectors, seem to have restarted with higher dynamism. This might be explained by the designation of broader activities as essential, as well as by having the possibility to enforce social distancing measures while continuing with production, although probably at a reduced pace. In the medium term, the virus will remain as an important challenge, although with higher dynamism in the US as an important counterweight for a better performance in our country.

In addition, there are some signals that despite additional increases in cases in the US, authorities might be somewhat reluctant to enforce strict lockdown measures again, which is favorable in terms of economic activity. In addition, continuing tensions with China, coupled with the ratification of USMCA, might lay the groundwork for a better outlook once investment resumes.

On the non-manufacturing sector, we maintain our view that the recovery will be slower, with socially dependent activities probably still highly impacted until an effective treatment and/or vaccine is readily available. Meanwhile, other sectors, such as commerce, will probably take a while to rebound as employment still has not recovered and uncertainty remains high, limiting the possibility of a pick-up in discretionary consumption. However, as activity resumes in manufacturing, this should have a positive spillover effect on the rest of the economy. In this context, while we expect a sequential rebound in 3Q20, we believe figures in the annual comparison will remain very low.

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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
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
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 Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
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
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
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