IMEF's PMI surveys – A bump in the road after recent gains

- ***IMEF*** **Manufacturing PMI (August, sa): 45.0pts; Banorte: 48.6pts; consensus: 49.0pts; previous: 47.8pts**
- ***IMEF*** **Non-manufacturing PMI (August, sa): 46.1pts; Banorte: 45.5pts; consensus: 47.8pts; previous: 47.1pts**
- **Although both indicators fell, the main surprise was in the manufacturing indicator. In this sector, weakness was broad, with the greatest impact in 'inventories', which had been the strongest in previous months**
- **In the non-manufacturing indicator performance was mixed, with an important decline in 'new orders', albeit with 'employment' increasing. This seems to be consistent with a domestic demand still repressed, although marginally recovering**
- **We reiterate our view that external demand is likely to be stronger relative to services. Nevertheless, today's figures point to the possibility of a deceleration in August, after picking up ground in June and July**

IMEF's **PMI's fall in August after important gains in previous months.** The manufacturing index stood at 45.0pts, below both our estimate (48.6pts) and consensus (49.0pts). This represents a 2.7pts rise relative to July, which was actually revised up by 0.4pts lower to 47.8pts (previous: 48.1pts). Meanwhile, the non-manufacturing came in at 46.1pts, better relative to our estimate (45.5pts), but considerably lower than consensus (47.8pts). This was 1.1pts below July's revised data. In particular, the decline in the manufacturing sector was relatively surprising, considering a good performance in the sector in the US. On the other hand, and more in line with our expectations, weakness in domestic demand kept the non-manufacturing indicator low. Considering that both remain below the 50pts threshold, going forward we believe the recovery will probably be slow.

Manufacturing declines significantly. Although the 2.8pts decline was not enough to reverse the previous month's gains, as seen in the following chart, the fall is relevant. Timelier data in the US had shown an additional increase –specifically, the manufacturing PMI–, although figures in our country do not reflect the same situation. In this sense, 'new orders' and 'production' were some of the most impacted categories, declining 3.2pts and 3.9pts, respectively. Nevertheless, the weakest category was 'inventories', declining 4.9pts after having shown a relatively strong performance, remaining above the 50pts threshold in five of the last six months. Meanwhile, 'employment' and 'deliveries' had more moderate adjustments of -1.2pts and -0.7pts in the same order. It should be mentioned that the latter is relatively consistent with some mobility indicators that suggest some stagnation in August, although closer to pre-pandemic levels.

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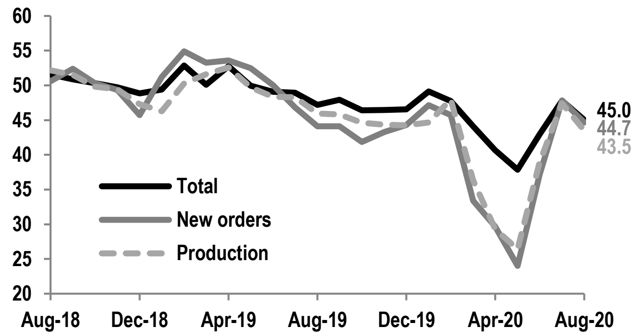
IMEF's manufacturing indicator
Seasonally adjusted figures

	Aug-20	Jul-20	Difference
Manufacturing	**45.0**	**47.8**	**-2.8**
New orders	44.7	47.8	-3.2
Production	43.5	47.4	-3.9
Employment	45.1	46.4	-1.2
Deliveries	47.8	48.5	-0.7
Inventories	45.1	50.0	-4.9

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator also declines, although by a lower magnitude. With the 1.1pts decline, progress from the previous month was not completely erased, similar to the other indicator. It should be mentioned that the fall was more moderate than in manufacturing, even despite greater signals of weakness at a domestic level. This is relevant as 'employment' increased 0.8pts, which could be related to additional reopening efforts. Nevertheless, and more consistent with our view, the rest of the components were lower, highlight the -2.6pts in 'new orders' and -1.7pts in 'deliveries'. Meanwhile, the fall in 'production' was more moderate at -0.3pts. Taking the latter into account, levels remain consistent with a protracted recovery in services and other sectors oriented to the domestic market.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Aug-20	Jul-20	Difference
Non-manufacturing	**46.1**	**47.1**	**-1.1**
New orders	43.9	46.5	-2.6
Production	45.1	45.4	-0.3
Employment	43.8	43.1	0.8
Deliveries	51.1	52.9	-1.7

Source: IMEF

Signaling a deceleration in August. Today's results were disappointing in both sectors, heightening risks that the recovery that started in June may be losing steam. Although this is likely related –at least to some extent– to a more difficult base effect given that the reopening started since that month, we see it as a warning sign. For manufacturing, we think July's historical trade balance surplus hinted at some mismatch in terms of inventories, which may be driving the steep decline in this subcomponent. Nevertheless, performance was weak across the board, including in 'new orders' and 'production', raising flags in terms of the rebound in trade. This would also be consistent with lower fiscal transfers to households in the US –as, until today, Congress has not reached an agreement despite the expiration of some benefits by the end of July– along some additional restrictions in allowed activities as the virus has not yet been controlled in several states. This report gives credence to the possibility that all these may have affected dynamism. Nevertheless, the US ISM manufacturing index for August was stronger, at 56.0pts from 54.2pts in the previous month, highest since late 2018. In the details, we highlight sizable gains in 'new orders', although with imports more muted than the headline.

In services, the sector looks dampened despite the uptick in employment and a higher level in absolute terms relative to manufacturing. This may have been supported by the additional relaxation of some economic activities, such as the reopening of cinemas, bars and nightclubs, at least in Mexico City –with some restrictions in the latter two, as they can do it only if reclassified as restaurants, among other measures– in mid-August. Nevertheless, this is not a sustainable source of support, particularly given a protracted decline in demand in some sectors (*e.g.* such as services mainly catering to tourists and those related to entertainment, as massive events) while consumption fundamentals remain impacted. One possible tailwind may be construction (which is accounted in this index) as the Federal Government keeps moving forward in the development of some of its flagship projects. Regarding the public sector, we will watch carefully for the 2021 *Budget Proposal* likely to be released next week, (due date: September 8th), to gauge which sectors could be relatively more supported in terms of government's resources aimed towards reactivation. Nevertheless, we believe austerity measures will remain firmly in place, as the government seeks to limit an increase in overall debt.

We reiterate our view that external demand is likely to be stronger relative to services. Our scenario of a recovery is contingent on relatively controlled conditions in terms of the evolution of the virus, both globally and domestically. If this is not the case, restrictions may be imposed again despite our base-case remaining that almost all countries worldwide will avoid full-fledged closures as seen between March and May in the Western Hemisphere. We maintain our full-year GDP forecast at -9.8% y/y, with a stronger sequential recovery expected in the third quarter owing to the reopening and more a favorable base effect (8.4% q/q) followed by relative slowdown in 4Q20 (3.9% q/q). In this sense, today's figures point to the possibility of a deceleration in August, after picking up ground in June and July.

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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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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