IMEF's PMI surveys – Mixed start of 4Q20, with manufacturing in expansion territory

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- ***IMEF* Manufacturing PMI (October, sa): 50.1pts; Banorte: 48.5pts; consensus: 48.5pts; previous: 46.9pts**
- ***IMEF* Non-manufacturing PMI (October, sa): 47.7pts; Banorte: 49.7pts; consensus: 49.7pts; previous: 48.8pts**
- **The increase in the manufacturing indicator was very positive, in our opinion still strongly supported by external demand. While all components were higher, 'new orders' and 'production' outperformed**
- **The non-manufacturing indicator declined, with weakness across the board, possibly cooling down after the recent expansion**
- **We still expect the recovery to be driven by external demand, with caution going forward as the outlook over the virus are seemingly taking a turn for the worse both domestically and abroad**

***IMEF's* PMI's post a mixed performance in October.** The manufacturing indicator stood at 50.1pts, higher than consensus, which matched our 48.5pts estimate. This represents a 3.2pts increase relative to September, which was revised to the upside, to 46.9pts (previous: 46.4pts). Meanwhile, the non-manufacturing indicator stood at 47.7pts, lower than our estimate and consensus at 49.7pts. This implied 1.2pts decline relative to the previous month's revised data –at 48.8pts from 49.3pts originally–. Although we expected the manufacturing sector to outperform, considering prevailing optimism in the US, we find the decline in non-manufacturing to be somewhat more surprising, but not completely unexpected given some recent developments in the domestic front. In this context, the manufacturing indicator managed to stand above the 50pts expansion threshold for the first time since May 2019. Despite of this, we remain cautious over performance over the coming months, with uncertainty around the pandemic still weighing on the outlook.

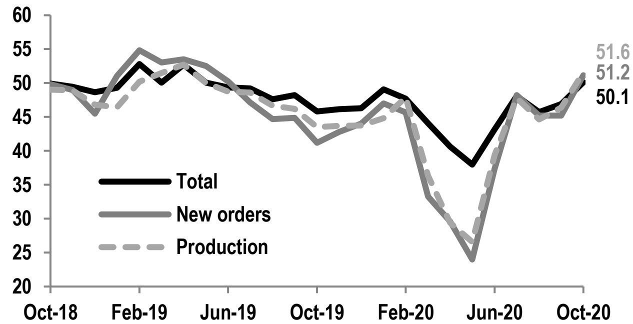
Manufacturing improves substantially. We consider these results to be positive, not only due to the +3.2pts in the month but also to the previous month's revision, backing some of the optimism seen in trade balance figures. We believe that the sector continues to be supported by strength from abroad, especially in the US. In this context, the ISM manufacturing index for the same month also surprised higher to 59.3pts, an expansion of 3.9pts and reaching its highest level in little over two years. We find particularly positive that the increase was driven by both 'new orders' and 'production', up 5.9pts and 5.2pts respectively. This is relevant as it suggests that dynamism might extend at least until next month, as those orders are fulfilled. In another positive note, 'employment' expanded by 3.5pts, now standing at 50.5pts. Lastly, 'inventories' and 'deliveries' were more muted, with the first one up 1.7pts and the last one just showing a slight 0.1pts decline.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Oct-20	Sep-20	Difference
Manufacturing	**50.1**	**46.9**	**3.2**
New orders	51.2	45.2	5.9
Production	51.6	46.4	5.2
Employment	50.5	47.0	3.5
Deliveries	50.1	50.1	-0.1
Inventories	46.1	44.4	1.7

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator declines. Overall performance was somewhat weak, although remembering that it comes after a substantial improvement in the previous month, even if it was revised down. In this sense, we do not rule out some 'cooling off' after the acceleration in the previous month, with performance in said period being more of a catch-up effect. However, we also believe that worsening epidemiological conditions might have had a bigger impact than expected, especially in consumer-facing sectors such as commerce. All four subcomponents declined, with 'new orders' leading losses at -2.0pts. Nevertheless, 'production' was also hit at -1.0pts, with 'employment' and 'deliveries' more stable at -0.5pts and -0.2pts, respectively.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Oct-20	Sep-20	Difference
Non-manufacturing	**47.7**	**48.8**	**-1.2**
New orders	46.5	48.6	-2.0
Production	46.9	47.9	-1.0
Employment	45.6	46.1	-0.5
Deliveries	51.8	52.0	-0.2

Source: IMEF

Mixed signs at the start of 4Q20. Overall, today's results are consistent with a still highly uncertain environment, with doubts over future performance, especially as the pandemic is taking a turn for the worse in several regions across the world. Considering this, we maintain our call of a 0.6% q/q growth in 4Q20 GDP, much more moderate than the +12.0% expansion seen in the 3Q20 preliminary print.

Manufacturing continues to accumulate gains, still supported by dynamism in the US. This is relevant considering that we have now gone by for some months without additional fiscal stimulus in that country and dynamism has not yet waned. As mentioned previously, this has been reflected by a positive performance in manufacturing exports. Looking forward, we believe that the result of today's elections will factor in heavily for the outlook for this sector, both on additional stimulus packages as well as from overall trade policy which will be taken by the future presidential administration.

Nevertheless, we still recognize other short-term risks, mainly related to the virus and its recent dynamic, which has impacted other countries as well as some relevant states for manufacturing in our country. These include Baja California, Chihuahua and San Luis Potosí, among others. In this sense, we will need to look into possible distortions as some lockdown measures go back into place.

On services, the outlook is far more uncertain. As mentioned, the deterioration in epidemiological conditions will probably also have a negative impact on this sector, as businesses may be forced to close. In addition, this could also limit gains in employment, dampening the overall recovery of demand and consumption. Nevertheless, relevant metropolitan hubs have remained stable at 'orange' within the traffic-light indicator, which might add to some resiliency to these figures. On a more favorable note, the promotions of *El Buen Fin* (Mexico's version of Black Friday) will be extended for another week, which might encourage some consumers to boost spending. However, other relevant sectors, mainly related to entertainment and tourism will probably continue dragging the indicator down, as upside for them remains limited.

All in all, today's results support our view that the recovery will be driven by external demand. Nonetheless, signals from the non-manufacturing sector continue to warn us about the pace of the recovery going forward. Considering this, as well as prevailing risks for the outlook we maintain our -9.0% y/y estimate for full-year 2020 GDP.

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