IMEF's PMI surveys – Temporary shocks affected manufacturing the most in February

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- ***IMEF* Manufacturing PMI (February, sa): 49.1pts; Banorte: 48.7pts; previous: 49.5pts**
- ***IMEF* Non-manufacturing PMI (February, sa): 49.4pts; Banorte: 48.4pts; previous: 48.3pts**
- **Results were stronger than we expected, albeit with both indicators back to contraction. Manufacturing declined while non-manufacturing was higher, with the former's absolute level lower due to temporary shocks to the sector**
- **We highlight the strong decline of 'inventories' within the former, while 'production' advanced at a relatively modest pace in the latter**
- **Despite adjustments in February, we still see stronger relative dynamism in manufacturing, with the effect of temporary disruptions probably fading out and with strength still concentrated in the external sector**

***IMEF's* PMI's return to contraction.** The manufacturing indicator reached 49.1pts, declining at the margin (-0.3pts) even after a relatively large revision lower for January. Meanwhile, the non-manufacturing indicator reached 49.4pts, surprising us to the upside and its biggest increase in the last three months. Although results were better than our expectations, both are in contraction (below the 50pts threshold), in our view signaling an overall weak performance. In this sense, we should mention that epidemiological conditions were still difficult at least during the first half of the period. Moreover, temporary shocks related to harsh weather conditions were likely also an important drag, as detailed further below.

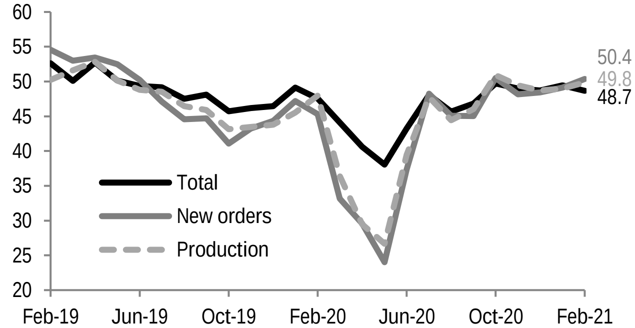
Manufacturing lower on inventories, likely reflecting temporary disruptions to activity. This indicator stood at 49.1pts, with January's performance revised significantly, to 49.4 from 50.2pts previously (-0.8pts). This looks consistent with the temporary impact from cold weather in the US and northern Mexico, with its most critical period for our country between February 13th to 18th. Specifically, ample disruptions were observed in electricity, oil and gas production in the region, impacting not only these sectors, but also with a knock-on effect on basically all industrial activity. We should mention that the effect was temporary. Hence, we highlight the strong 2.1pts correction lower in 'inventories', with all other components better at the margin (albeit from revised figures). This is because it tries measure if inventories have increased –implying a higher indicator– or declined relative to the previous month. Given temporary production challenges, firms were obliged to cut them below optimal levels. We thought this was highly likely, although we were more surprised by the marginal increase in 'deliveries', as weather conditions also affected transportation of goods. Lastly, we believe that the performance in 'production' and 'new orders' were positive, signaling resiliency in terms of overall demand levels. In addition, we believe it is important to mention that the most problematic phase of the problems ended before the official start of the sample period (on the 20th), which in our view also helps explain why they were not severely affected, particularly the former.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Feb-21	Jan-21	Difference
Manufacturing	49.1	49.4	-0.3
New orders	50.4	49.1	1.2
Production	49.8	49.0	0.9
Employment	50.2	49.1	1.0
Deliveries	48.1	48.0	0.1
Inventories	48.3	50.4	-2.1

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator rebounded but remains below 50pts. We expected this sector to increase as it reached a five-month low in January. Nevertheless, the rebound was better than our expectations. It is our take that better epidemiological conditions in the second half of the month helped. Specifically, in the traffic light indicator from February 1st to the 14th, 13 states were in red, 17 in orange and only 2 in yellow. Nevertheless, these moderated significantly for the next two weeks, which is also when the survey's collection period began. In addition, shopping malls were reopened with restrictions since the first day of the month in the State of Mexico, followed by Mexico City the next week (along the easing of other measures). On the other hand, vaccinations for people aged 60+ started on February 15th, which may also have boosted sentiment. By component, we note that 'deliveries' surged the most (5.0pts), followed by 'employment' (3.6pts). It is our take that both may be related to better mobility levels, which have been more important for services relative to industry since the pandemic began. On the other hand, both 'production' and 'new orders' went up by 2.3pts, which was relatively modest although enough to take both components back into expansion, which is a positive signal.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Feb-21	Jan-21	Difference
Non-manufacturing	49.4	48.3	1.1
New orders	50.1	47.8	2.3
Production	50.0	47.7	2.3
Employment	47.3	43.7	3.6
Deliveries	49.8	44.9	5.0

Source: IMEF

We maintain our view of a 0.7% q/q contraction in the first quarter. Although the report was better than our expectations, we continue arguing that the economy started the year on a wrong foot. Moreover, we still see stronger relative dynamism in manufacturing, with the effect of temporary disruptions probably fading out and with strength still concentrated in the external sector. Regarding the latter, today's release of the ISM manufacturing in the US suggests that dynamism remains in this sector, with the indicator up to 60.8pts from 58.7pts previously. We should mention that the strongest increase was in the 'prices paid' component, which is somewhat of a warning sign. In addition, it was also affected by the abovementioned disruptions.

Despite of the latter, both the ‘production’ and ‘new orders’ components were also higher. ‘Exports’ were also better but ‘imports’ declined modestly (-0.7pts). Although we do not rule out some payback in March, we believe these results suggest and overall strong performance. On the other hand, we remain somewhat cautious in the short-term on a plethora of reports about supply chain problems due to the lack of components (*e.g.* semiconductors). According to industry insiders, it will take some time for these problems to be fully resolved, limiting growth potential in manufacturing. In this sense, we will carefully watch INEGI’s data on vehicle production and exports for February on Friday, to see if there is any sizable impact from this, at least in the auto industry.

Going to non-manufacturing, the improvement in COVID-19 dynamics and the weather should also help performance at the margin. Nevertheless, uncertainty remains high as the vaccination process has seen some issues in its implementation, which in our view could at least limit optimism. Moreover, credit data suggests that consumers remain cautious, while January’s employment report showed that the labor market has reversed some of its recent gains. On the contrary, remittances have stayed resilient, which in our view could give support to more essential categories. Broadly speaking, available indicators are mixed at best, so we maintain our call that the domestic recovery is likely to remain modest.

Considering the latter, we reiterate our estimate of a 0.7% q/q contraction in GDP during the first quarter of the year, with a moderate performance extending until the middle of 2021. More favorably, we still see some acceleration in growth during the second semester, boosted by more administered doses of the vaccine and US fiscal stimulus. We think this will help boost both consumer and business confidence, while the gradual normalization of activities should also result in higher dynamism, especially in the sectors that have been most affected since the pandemic began –which are those more dependent on social interactions–.

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