IMEF's PMI surveys – A moderation in June, but with both still in expansion

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- ***IMEF* Manufacturing PMI (Jun, sa): 52.4pts; Banorte: 51.8pts; consensus: 51.8pts; previous: 52.4pts**
- ***IMEF* Non-manufacturing PMI (Jun, sa): 53.8pts; Banorte: 53.3pts; consensus: 53.8pts; previous: 54.3pts**
- **Despite a mixed performance –highlighting declines in 'production' and 'new orders'–, both indicators remained in expansion territory**
- **In manufacturing, only 'inventories' and 'deliveries' increased, probably still related to supply-chain issues**
- **In non-manufacturing we saw generalized declines, in our view likely related to a worsening situation regarding new COVID-19 cases by the end of the month**
- **We still expect an acceleration in 2Q21 GDP growth despite a relatively modest start for activity during the period**

***IMEF's* PMIs remained in expansion in June.** The manufacturing indicator reached 52.4pts, unchanged relative to the previous month. Non-manufacturing stood at 53.8pts, lower at the margin (-0.4pts). We should say that this happened after an upward trend since the start of the year in both cases, with the first reaching in May its highest since April 2019 and the second since June 2017. Moreover, they remained in expansion (above 50pts). Hence, we see today's results as mostly positive. On the other hand, we note also that the steepest declines were in the 'production' and 'new orders' components, in our view reflecting a backdrop which seems to have started to become more difficult. Nevertheless, it is our take that it stayed broadly favorable for the recovery.

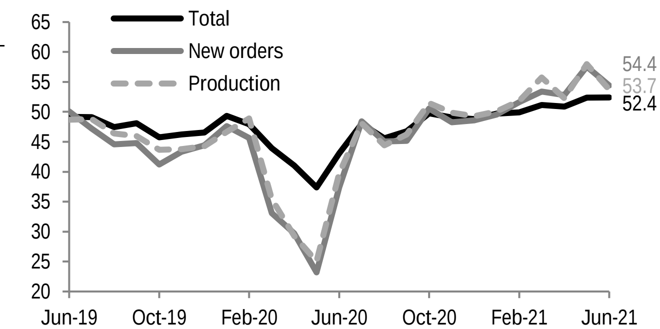
Mixed changes in manufacturing, likely reflecting persistent supply chain issues. As already mentioned, this indicator reached 52.4pts, with May revised higher from 51.6pts. We highlight the strong 4.3pts decline in 'production', albeit still at a better level than two months ago. We believe this reflects difficulties from input scarcity, with the series showing higher volatility in recent months. In this backdrop, news about challenges for the auto industry continue. Among them, *Volkswagen* that they would temporarily stop production due to the lack of semiconductors, which is still affecting all the companies in this sector. Moreover, there are reports about issues because of the uptick in COVID-19 cases –mainly in Asian countries– and possible hoarding. In this environment, 'new orders' also fell, to 54.4pts from 57.6pts. In our view. In our view, this is more concerning as it points towards limits for growth. Moreover, employment declined to 51.9pts from 54.1pts. In contrast, 'deliveries' (at 51.1pts) and 'inventories' (51.4pts) increased, with the latter at a new high in little over a year. We believe these changes could also be related to the same supply problems, with factories also modifying their inventory strategies to satisfy client's demand as best as possible.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Jun-21	May-21	Difference
Manufacturing	52.4	52.4	0.0
New orders	54.4	57.6	-3.2
Production	53.7	58.0	-4.3
Employment	51.9	54.1	-2.2
Deliveries	51.1	48.0	3.1
Inventories	51.4	48.4	3.0

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing with modest but broad declines. This indicator stood at 53.8pts, down 0.4pts relative to May. As in manufacturing, 'production' was the most impacted, to 56.3pts from 57.7pts previously. Moreover, 'new orders' declined 0.7pts and employment by 0.4pts. In our view, increased cautiousness at the margin because of COVID-19 by the end of the period may have affected performance. Similarly, the pace of vaccinations has been moderating since the beginning of the month, when it reached an historical high. Although there is not much information about the prevalence of new, more contagious virus variants, we think it is likely that these also help explain the recent trend in new cases. In this context, we do not see today's adjustment as highly concerning, because: (1) The indicator remains above the 50pts threshold, signaling that activity kept growing during the period; and (2) a deceleration after consecutive monthly increases is natural due to base effects, recalling that this should be interpreted as a more modest pace of growth.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Jun-21	May-21	Difference
Non-manufacturing	53.8	54.3	-0.4
New orders	57.2	57.8	-0.7
Production	56.3	57.7	-1.4
Employment	51.4	51.8	-0.4
Deliveries	49.2	49.7	-0.5

Source: IMEF

The recovery should continue, albeit at a more modest pace as it matures. We maintain our view that GDP accelerated in 2Q21 relative to the first quarter, anticipating 1.1% q/q growth. This was likely supported by a more positive environment due to less temporary and adverse shocks –both globally and locally– and the boost from higher stimulus abroad. In this respect, the manufacturing and non-manufacturing indicators averaged 51.9pts and 53.8pts in the period, both above the levels seen in the previous quarter. In turn, this is consistent with an acceleration in the pace of advance. We believe the recovery will continue during the second half of 2021, as some sectors are still lagging meaningfully. Moreover, underlying fundamentals kept a good performance lately –such as employment and remittances– and confidence stayed on the upside. On the other hand, sequential growth should be more modest as the recovery matures.

Despite of this, we are tracking closely some risks on the horizon. Among them, we highlight the recent uptick in COVID-19 cases domestically, as mentioned above. Specifically, we have seen the greatest acceleration in some key touristic states, such as Quintana Roo and Baja California Sur. This could be related to a higher influx of foreigners, especially US tourists, with most of them probably vaccinated. Meanwhile local vaccinations campaigns have lagged in relative terms. Therefore, contagions may be rising due to higher mobility and the spread of more contagious variants in these sectors. This is important as the incipient recovery in this type of services may be at risk if these trends worsen enough. In this sense, we will pay close attention to upcoming releases about international and domestic travelers. Another relevant issue for consumption is the persistence of price pressures given that affect purchasing power. In addition, we will keep looking if the reopening results in a rebalancing of spending towards services, which in turn could lift prices and limit growth prospects.

In manufacturing, concerns about global supply chains remain high and are also affecting prices. According to the US PMI manufacturing for June, these have not been resolved yet and several respondents judged them as worsening rather than improving. Although demand is still vigorous, especially from the US, the marginal effect from stimulus measures should be fading given that some of these transfers have already been made and others are starting to expire (*e.g.* additional unemployment benefits in some states). Another potential headwind is that the head of the *Tax Administration Service* (SAT, in Spanish), Raquel Buenrostro, recently stated that authorities should re-examine the automotive industry for the favorable effective tax rate that these companies pay. Along the possibility of other tax changes starting in 2022 as the election season has ended, manufacturing companies may be warier of investing due to higher uncertainty. Moreover, there have been some labor issues pointed out by the US based on new provisions agreed in USMCA. Hence, higher challenges for this industrial subsector may be in store. Despite the need of watching carefully developments in these fronts, we maintain our call of 5.9% GDP growth this year and 2.5% in 2022.

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