

IMEF's PMI surveys – Flirting with contraction in September

- **IMEF Manufacturing PMI (Sep, sa): 49.8pts; Banorte: 52.0pts; consensus: 51.8pts; previous: 50.8pts**
- **IMEF Non-manufacturing PMI (Sep, sa): 50.1pts; Banorte: 51.8pts; consensus: 51.1pts; previous: 50.4pts**
- **Despite the better evolution in COVID-19 cases, both indicators declined. Nevertheless, manufacturing showed a stronger correction, probably affected by persistent supply chain disruptions**
- **In manufacturing, three of five components backtracked, highlighting a strong fall in ‘inventories’ which could also be related to the scarcity of supplies**
- **In non-manufacturing, three out of four components diminished, noting weakness in ‘production’**
- **The report suggests that the scenario remained complicated by the end of 3Q21, resenting several shocks. Nevertheless, we are still optimistic that conditions will improve for the last quarter of the year, extending the recovery**

IMEF's PMIs suggest that the deceleration extended through September.

The manufacturing indicator reached 49.8pts, below the 50.8pts seen in the previous month. The latter figure was revised lower, with the first print at 51.3pts. Non-manufacturing stood at 50.1pts, with a more modest correction lower (-0.3pts). The former was below the expansion threshold (50.0pts) for the first time in six months, while the latter was barely above it. This contrasted with our call of stronger dynamism on better virus conditions. Nevertheless, we recognize other adverse factors that likely impacted these figures, such as: (1) Persistent supply chain disruptions, with focalized lockdowns in China possibly affecting certain sectors, mostly in manufacturing; (2) higher consumer uncertainty, exacerbated by stronger price pressures; and (3) bad weather, including the hurricane season both in the US and Mexico, as well as challenges in other regions.

Adverse impact in manufacturing remains. As mentioned, this indicator reached 49.8pts, 1pts below revised figures for August. Performance inside was mixed, although skewed lower. Weakness was centered on ‘inventories’ (-6.4pts), more than reversing gains observed in the previous month. ‘Deliveries’ improved 1.8pts, not enough to compensate its previous downfall. These seem to point out that supply chain problems –which go from scarcity of raw materials to logistics issues– have continued, consistent with both local and global reports on the matter. In other components, ‘new orders’ and ‘production’ declined by 2.1pts and 1.4pts, respectively. Apart from these themes, we do not rule out an impact from other factors such as uncertainty about the resolution of disputes in the USMCA framework. More favorably, employment picked up 0.4pts, which could be a relevant signal considering that INEGI’s data has shown significant losses in recent months.

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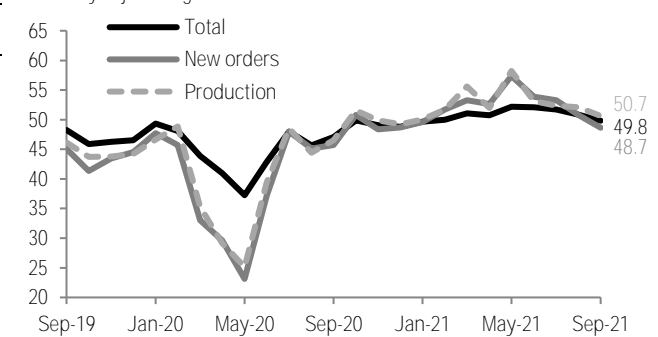
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IMEF's manufacturing indicator
Seasonally adjusted figures

	Sep-21	Aug-21	Difference
Manufacturing	49.8	50.8	-1.0
New orders	48.7	50.8	-2.1
Production	50.7	52.1	-1.4
Employment	50.0	49.6	0.4
Deliveries	48.0	46.2	1.8
Inventories	50.7	57.1	-6.4

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Modest fall in non-manufacturing. This indicator reached 50.1pts from 50.4 in August –revised marginally higher, by 0.3pts. Three out of four components declined, although all of them were limited in magnitude. We expected higher dynamism because of the reduction in daily COVID-19 cases. Nevertheless, cautiousness may have continued considering: (1) Strong consumer price pressures; and (2) job losses in the previous month, among others. In this respect, ‘production’ was the weakest link, down 0.4pts, followed closely by ‘deliveries’ which declined 0.3pts. ‘Employment’ was basically unchanged, down 0.03pts. Lastly, the only one with a positive change was ‘new orders’ up 0.3pts and constituting a favorable signal going forward.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Sep-21	Aug-21	Difference
Non-manufacturing	50.1	50.4	-0.3
New orders	51.0	50.7	0.3
Production	49.4	49.8	-0.4
Employment	50.1	50.1	0.0
Deliveries	49.9	50.1	-0.3

Source: IMEF

A difficult environment at the end of 3Q21, with the possibility of slower recovery into year-end. Today’s data suggests that conditions remain quite difficult, adding risks to our view of a 0.8% q/q GDP expansion in the quarter. Specifically, we believe that these risks are related both to the external front – with production not being able to keep up with demand– as well as domestic issues, the latter likely still feeling the effect from the latest wave of COVID-19.

By sectors, manufacturing is still in a tight spot, exemplified by its return to contraction territory. Although this should be the most dynamic sector given strong demand from abroad, especially the US, it is plagued with challenges. In this respect, experts continue warning that the problems of supply in semiconductors will likely extend to 2022. The CEO of AMD, Lisa Su, and which is one of the main producers of computer chips, said that they expect them to alleviate somewhat until late next year. This is consistent with comments from the president of AMIA, Jose Luis Cuevas, which sees the start of normalization in auto production until the second half of 2022. In local issues, president Andrés Manuel López-Obrador has made a call to lift railway blockades in Michoacán, citing its strong economic impact. Although this does not imply that they will stop, we think that this could be a positive signal.

In more immediate data, there are mixed signals from the sector in the US, with Markit's PMI decelerating at the margin (down 0.4pts to 60.7pts), while the ISM manufacturing inched higher (+0.2pts to 61.1pts). In either case, both remain firmly in expansion territory, which could be a tailwind for domestic production.

In non-manufacturing, we think the situation could turn more favorable. Accumulated progress in vaccinations and a more lenient approach by the government in terms of restrictions will allow a broader reopening of activities, including in tourism. This could attract both local and international travelers, providing a boost to the sector in the winter holiday period. Fundamentals are more mixed, with recent job losses and possible risks to the labor market in the short term. Nevertheless, remittances keep surprising higher, reaching new historical highs in both July and August. Therefore, we believe that the main challenge is coming from inflationary pressures, with the most recent prints surpassing analysts' expectations.

We maintain our GDP forecast for this year at 6.2%, albeit with risks to the downside growing. Nevertheless, we believe more information is necessary about the trend for activity after the third wave of COVID-19 to evaluate if indeed we see only a temporary or more persistent moderation.

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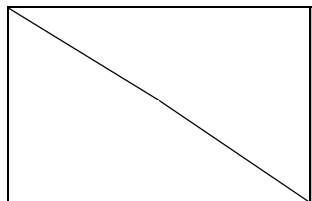
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