IMEF's PMI surveys – A modest rebound in February as Omicron cases declined

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- ***IMEF*** **Manufacturing PMI (Feb, sa): 50.9pts; Banorte: 51.3pts; previous: 48.6pts**
- ***IMEF*** **Non-manufacturing PMI (Feb, sa): 50.5pts; Banorte: 50.1pts; previous: 49.0pts**
- **Both indicators returned to expansion after a meaningful setback in January. In our view, this is consistent with the decline in Omicron cases globally. We highlight the increase in employment in both subsectors, as well as the rise in 'production' within non-manufacturing**
- **In manufacturing, 'inventories' surged 4.7pts, still showing very high volatility. All other components rose, including 'production' (+2.1pts) and 'new orders' (+1.4pts), with both again above the 50pts threshold**
- **In non-manufacturing, 'deliveries' were lower, to 48.7pts from 50.5pts. In turn, 'new orders' increased by 2.4pts to 52.7pts, albeit not enough to make up for the previous month's setback**
- **In our view, results point to a gradual improvement and modest economic growth in 1Q22, albeit with heightened global risks to the outlook given the recent shock from the Ukraine invasion**

IMEF's **PMIs rebounded to expansion in February.** Manufacturing picked up to 50.9pts, with the previous month revised marginally to the downside. Non-manufacturing also increased, albeit more modestly, from 49.0pts to 50.5pts. Although the results are positive as both returned to expansion territory, the rebound was not meaningful enough to make up for recent losses. It is our take that less COVID-19 cases due to Omicron helped at the margin. In this sense, the peak in daily cases was seen in mid-January at slightly more than 60 thousand and has been declining since then. Mobility also improved, although more modestly as the recent impact of higher cases on this metric was muted. On manufacturing, a similar situation was observed in the US –our main trading partner–, with the peak in new cases at 1.3 million on January 10th, after which a downward trend was established. Nevertheless, headwinds remain. In our view, the most important remains price pressures, affecting raw materials and final goods the most, but also with elevated upward adjustments to services, in turn likely explaining the relatively modest recovery in both indicators.

Manufacturing broadly higher, with the move led by 'inventories'. This component increased from 50.3pts to 55.0pts, maintaining very high volatility. We think this reflects ongoing supply chain problems that have made it much more difficult for companies to manage their inventories. Apart from this, 'employment' picked up by 3.6pts to 50.7pts, while production was up 2.1pts, to 50.7pts. On the other hand, 'new orders' rose 1.4pts, reaching 50.5pts. Although favorable as all components were higher, we believe the latter suggests that purchasing managers remain cautious about the overall outlook. Several headwinds remain, including the scarcity of some key inputs, higher production costs, supply bottlenecks, and geopolitical uncertainty, among the most relevant.

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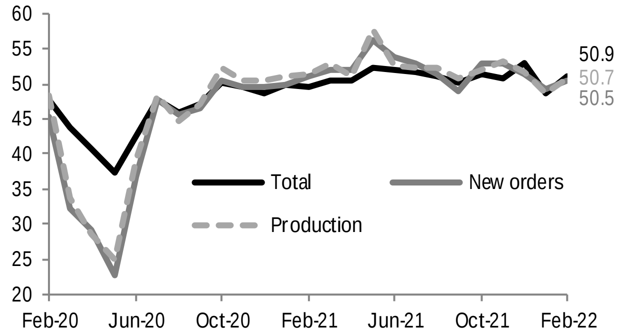
IMEF's manufacturing indicator
Seasonally adjusted figures

	Feb-22	Jan-22	Difference
Manufacturing	50.9	48.6	2.4
New orders	50.5	49.1	1.4
Production	50.7	48.6	2.1
Employment	50.7	47.1	3.6
Deliveries	49.7	47.7	2.0
Inventories	55.0	50.3	4.7

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing supported by higher 'production'. This subcomponent went from 47.3pts to 51.9pts. This was its most sizable increase since July 2020, although not enough to make up for the 9.9pts loss seen in January. In our view, this was helped by higher mobility. According to Google's data, all categories –public transportation, retail and recreation, and workplaces– moved back above pre-pandemic levels during the period. 'Employment' rose 2.9pts and 'new orders' by 2.4pts, with both back to expansion, although also not enough to make up for their previous month fall. Overall, we believe these indicators suggest a marginal improvement in domestic demand, albeit remaining still quite modest.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Feb-22	Jan-22	Difference
Non-manufacturing	50.5	49.0	1.6
New orders	52.7	50.3	2.4
Production	51.9	47.3	4.5
Employment	50.8	47.9	2.9
Deliveries	48.7	50.5	-1.9

Source: IMEF

Modest GDP growth in 1Q22. In our view, the report is positive despite still signaling a modest economic performance during the full quarter. Specially, the rebound is related to the weakness seen at the start of the year, albeit not enough to point towards renewed dynamism. We are still concerned about domestic demand, especially in an environment characterized by: (1) Persistent price pressures that affect disposable income; and (2) weakness in the latest employment indicators. On the former, the conflict in Ukraine has deteriorated the outlook even more because of the effect that it has had in a series of commodity prices globally. Among them we highlight oil, which would push higher gasoline prices. This is even more complicated considering that Mexico's government to excise taxes on low-grade gasoline reached 100% a couple of weeks ago, although remaining close to it, so these adjustments have the potential to translate faster into the final consumer prices. A similar situation could be seen in goods such as wheat and corn, with international prices also showing relevant upward pressures. On the other hand, the exchange rate has also been affected by the conflict, although so far in a more modest magnitude.

In manufacturing, ongoing supply chain problems are still affecting performance, to which we most add potential logistics issues from the sanctions imposed to Russia by the European Union and the US. Given the complicated linkages between value chains and global trade, the conflict may well result in further delays of the normalization in supply. Hence, we will be watching closely its evolution, especially focused on indicators such as 'new orders' and 'delivery times' which could be impacted as soon as March. Although we expect limitations to be relatively low in the short-term –considering also the relative improvement in the pandemic's evolution, including in China–, its impact may well be stronger if the conflict and associated sanctions extend for much longer

Broadly speaking, Mexico's trade relations with Russia and Ukraine are low, so the direct effects should be modest. Nevertheless, its indirect impact –via the financial channel in the short-term, and in trade on a longer-term basis–, could be relevant. Apart from the latter, it could affect consumer and business confidence further, which would be seen in spending of non-essential goods.

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