

IMEF's PMI surveys – Lower manufacturing, with services resilient

- **IMEF Manufacturing PMI (August, sa): 49.4pts; Banorte: 50.9pts; previous: 51.2pts**
- **IMEF Non-manufacturing PMI (August, sa): 51.9pts; Banorte: 52.3pts; previous: 52.0pts**
- **While both indicators moderated after a significant advance in the previous month, manufacturing was much lower, likely influenced by more challenging conditions abroad. On the other hand, services were quite resilient, with fundamentals likely compensating for additional price pressures**
- **In manufacturing, ‘deliveries’ stands out as the only item higher, with weakness centered in ‘inventories’ and ‘new orders’**
- **In non-manufacturing, moves were more modest, with employment slightly up, while the remaining categories moderated, especially ‘production’**
- **Results suggest a slowdown in external demand, while the domestic sector looks more resilient. While this is broadly consistent with our view for the remainder of the year, there are some signs that US demand could prove to hold strong for longer than anticipated**

Drop in both IMEF's indicators, especially manufacturing. This sector fell to 49.4pts, with a with a relevant downward adjustment in July (by -1.1pts to 51.2pts). Meanwhile, non-manufacturing declined to 51.9pts, with a modest adjustment in the previous month (by -0.1pts to 52.0pts). Both registered a decline after a strong recovery in July, albeit with sharp differences in magnitudes. Overall, manufacturing is somewhat more relevant. While its equivalent for the US from *S&P Global* extended its downward move, from 52.2pts to 51.5pts, adjustments in the latter have been more modest. Said report highlights challenges in ‘new orders’ amid lower demand, as well as new problems in international supply chains that affect inventory management. While this does have a negative effect domestically, we believe some local issues also impacted performance, including reports of delays in customs offices, which further impact the availability of supplies. Regarding non-manufacturing, consumer fundamentals have continued their mostly positive trend. Employment continues to recover –although at a slower pace–, while remittances reached new historical highs and credit kept growing. However, we believe inflation continues to limit household spending, with increasing risks to real wages and thus, purchasing power.

Manufacturing back to contraction. The index reached its lowest level since January. Although the sector has improved, it remains at the mercy of global and domestic shocks. Inside, three out of five components stand in contraction, noting ‘new orders’ as the weakest at 46.4pts (-4.1pts). This was followed by ‘production’ (47.7pts; -2.3pts) and ‘employment’ (49.3pts; -0.4pts). Regarding logistics, volatility remains. ‘Deliveries’ gained significantly again, climbing 2.3pts to 52.5pts. On the contrary, ‘inventories’ fell sharply (-6.1pts), reaching 52.2pts, consistent with ongoing management problems.

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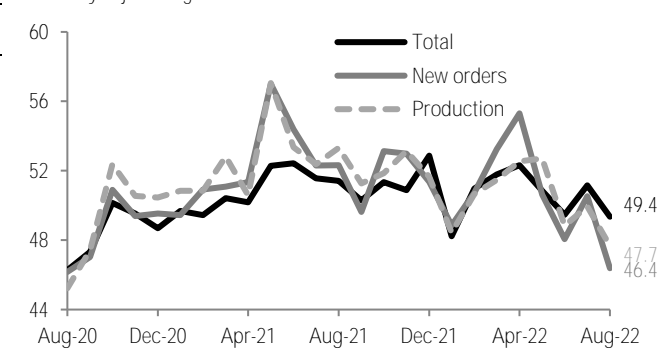
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IMEF's manufacturing indicator
Seasonally adjusted figures

	Aug-22	Jul-22	Difference
Manufacturing	49.4	51.2	-1.8
New orders	46.4	50.5	-4.1
Production	47.7	49.9	-2.3
Employment	49.3	49.8	-0.4
Deliveries	52.5	50.2	2.3
Inventories	52.2	58.3	-6.1

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing barely declines. We believe its resiliency is quite positive, possibly proving that it will remain as the driver of activity for the remainder of the year. By sectors, all but one stood in expansion, with this being ‘deliveries’ at 49.2pts (-0.8pts). This is consistent with supply issues. On the contrary, ‘employment’ strengthened further, up 0.2pts to 51.6pts, something which will be key to support dynamism ahead. Lastly, we will follow closely the performance of ‘production’ (52.3pts; -0.9pts) and ‘new orders’ (54.2pts; -0.4pts) given their moderation in the period.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Aug-22	Jul-22	Difference
Non-manufacturing	51.9	52.0	-0.1
New orders	54.2	54.5	-0.4
Production	52.3	53.2	-0.9
Employment	51.6	51.5	0.2
Deliveries	49.2	50.0	-0.8

Source: IMEF

Headwinds in 3Q22 are starting to become more evident, although bright spots will continue to benefit activity. We believe today’s results are mixed, consistent with our view of a moderation in the pace of growth through the third quarter. Headwinds from abroad (mainly the US) seem to have started to take a toll on some domestic sectors, while local conditions are somewhat steadier.

Nevertheless, some recent developments suggest that the former could not result in a very sharp deceleration. As mentioned in previous reports, the link with US demand will be key. While markets expected that monetary tightening would have a much more significant effect on activity, the latest signals suggest that growth will continue. This is evidenced by the latest update to the Atlanta Fed *GDP-Now* for 3Q22, which was revised higher to 2.6% q/q saar. This comes on top of positive expectations for the labor market, awaiting August’s figures tomorrow, as well as built-up household savings which could be used to smooth-out consumption. If US dynamism prevails, the main limit for output growth will continue to be supply issues. In this respect, COVID-19 remains an issue in China, with the possibility of further disruptions as cases spread through the country again. Turning to local conditions, we will keep watching trade issues as part of USMCA, with a resolution on auto sector rules of origin expected soon, as well as progress on energy sector consultations.

Regarding the non-manufacturing sector, we remain relatively optimistic. We believe domestic demand has the potential to keep growing, boosted by improving fundamentals. In addition, it seems that the pandemic has been left behind, with people adjusting some of the restrictions and showing more willingness to return to normality. As several sectors have not yet recouped the levels of activity seen before this shock, there is still room for further improvement. Nevertheless, risks prevail, mainly through inflation –especially given recent increases in food staples– which could trigger changes to consumption patterns. As such, it will be relevant to see if the peak in annual inflation is indeed seen in 3Q22, and if lower commodity prices start to pass-through to final goods.

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