

IMEF's PMI surveys – Broad improvement at the end of 1Q21

- **IMEF Manufacturing PMI (March, sa): 50.7pts; Banorte: 50.4pts; previous: 49.7pts**
- **IMEF Non-manufacturing PMI (March, sa): 52.8pts; Banorte: 51.7pts; previous: 49.6pts**
- **Both indicators returned to expansion territory, which had not happened since April 2019. Specifically, manufacturing recovered after last month's shock, while non-manufacturing was stronger, consistent with a better evolution in virus cases**
- **In the former, gains were concentrated in 'production', which showed higher dynamism. In the latter, the strongest advance was in 'new orders', suggesting a better outlook ahead**
- **We believe results are very positive, signaling a better outlook for activity at the end of the quarter. In this respect, it adds modest upward risks to our forecast of a 0.2% q/q contraction of 1Q21 GDP**

Both IMEF's PMIs back to expansion for the first time in little less than two years. The manufacturing indicator reached 50.7pts, better by 1.0pt relative to the previous month. Meanwhile, the non-manufacturing indicator stood at 52.8pts, up 3.2pts sequentially. With this, both indicators returned to expansion (above the 50pts threshold) for the first time since April 2019. In our view, the improvement in epidemiological conditions and the reversal of temporary shocks due to blackouts and the undersupply of natural gas are key to explain these results. Nevertheless, we do not rule out an additional boost from the approval of new fiscal stimulus in the US, with an influence from better external demand and possibly also higher remittances into our country.

Manufacturing up after relevant disruptions in the previous month. This indicator reached 50.7pts, with February's data revised higher to 49.6pts from 49.1pts. This is consistent with the temporary nature of the shock last month. Issues with electricity production started around February 14th/15th, with reports saying that operations returned to normal by the 18th. Nevertheless, gas deliveries were reestablished until days later. In turn, this affected all industry. Considering this backdrop, 'production' had the strongest rebound (+2.4pts), while also exhibiting the highest absolute level among components. Also positive, 'employment' had the second highest increase (1.7pts). 'New orders' went up by 1.3pts, consistent with a more favorable environment in coming months, possibly skewed upwards by a greater expansion of external demand after the approval of US\$1.9 trillion in new fiscal stimulus in the US at the beginning of the month. On the contrary, 'deliveries' (-0.5pts) was the only one lower. 'Inventories' picked up only 0.3pts. In the latter, we expected a steeper rebound after February's fall, consistent with logistical issues due to the disruptions. Nevertheless, additional supply issues may be impacting more than anticipated, so it will be important to monitor its evolution.

April 5, 2021

www.banorte.com
@ analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

Document for distribution among the general public

IMEF's manufacturing indicator

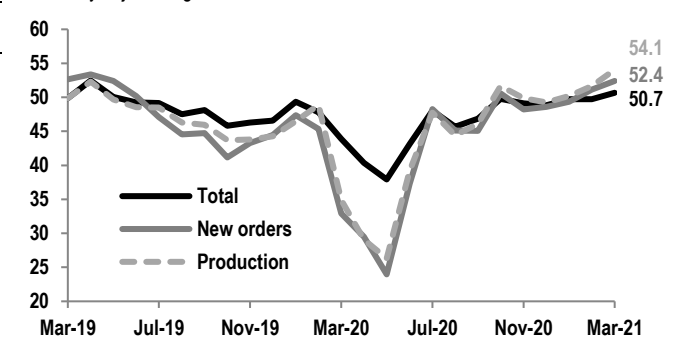
Seasonally adjusted figures

	Mar-21	Feb -21	Difference
Manufacturing	50.7	49.7	1.0
New orders	52.4	51.1	1.3
Production	54.1	51.7	2.4
Employment	52.3	50.6	1.7
Deliveries	47.5	47.9	-0.5
Inventories	48.4	48.0	0.3

Source: IMEF

IMEF's PMI manufacturing indicator

Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing accelerates higher. This indicator stood at 52.8pts, significantly higher than the 49.6pts observed in February (with a modest revision upwards). This is its best level since March 2018. We believe the key driver was a further improvement in conditions surrounding the pandemic. Specifically, by the end of the month only seven states were in ‘orange’ according to the traffic light indicator, with other seven already in ‘green’. In addition, the vaccination process continued, reaching an average of around 300 thousand daily doses in the last seven days. Other relevant factors that could have had a positive influence include the start of the Easter holiday at the end of the month, which might have increased activity levels in tourism and recreational services. On the other hand, cash transfers from some social programs were brought forward to March to not interfere with the electoral process. Remittances likely accelerated –considering the approval and disbursement of a new round of checks for US\$1,400 to people earning less than US\$75,000 a year in the US–. These last two factors may have supported households’ spending. By components, strength was mostly in ‘new orders’ and ‘production’, up 4.6pts and 4.4pts, respectively. In our view, this is very favorable and coincides with further increases in mobility levels. On the other hand, ‘employment’ also advanced (2.0pts), which we believe is key for a sustained recovery. Finally, ‘deliveries’ were lower, as in manufacturing.

IMEF's non-manufacturing indicator

Seasonally adjusted figures

	Mar-21	Feb -21	Difference
Non-manufacturing	52.8	49.6	3.2
New orders	55.1	50.5	4.6
Production	53.9	49.5	4.4
Employment	49.8	47.8	2.0
Deliveries	49.9	51.0	-1.2

Source: IMEF

The economy closes 1Q21 more strongly. It is our take that today’s report was very positive, with the improvement in both sectors pointing to a better outlook for activity. Specifically, we believe they represent a modest upward risk to our estimate of a 0.2% q/q GDP contraction in the first quarter. Nevertheless, we will wait for additional hard data for February to see the final impact of the blackouts and gas undersupply, as well as the magnitude of the recovery in the following month.

We believe it is very important that ‘new orders’ are comfortably above the 50pts threshold in both indicators, suggesting that the recovery could extend at least in the short term. This is in line with our view of a more favorable environment for activity into 2Q21. First, we expect the effects of the latest stimulus in the US to remain positive in that period as resources continue to be deployed, including some from previous packages. Moreover, the vaccination process in said country keeps advancing at a quick pace, with new goals established for administered doses, which should allow for a faster than expected reactivation. We still think that external demand will be the main engine behind Mexico’s recovery, which will likely be seen more directly in the manufacturing indicator. Despite of this, we still recognize some risks, mainly from potentially new disruptions to supply chains. Although we already knew about the scarcity of semiconductors –which will probably continue in coming months– there are other shocks, such as delays in the transportation of goods in some ports (*e.g.* Suez Canal in recent days, backlogs in the US currently).

Regarding non-manufacturing, we believe dynamism will remain closely linked to the evolution of the pandemic, with the state of the ‘traffic light’ indicator influencing performance. In the short term, the highest risk is likely a new wave of infections. According to experts, a new rise in cases is feasible after the Easter holiday due to the relaxation of social-distancing measures. Hence, we will keep focusing in this front, as it will remain key to determine the trend of the recovery ahead.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Economic Research and Financial Market Strategy

Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Economic Research

Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

Corporate Debt

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Economic Studies

Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454