

IMEF's PMI surveys – Mixed results, with mounting risks in manufacturing

- **IMEF Manufacturing PMI (April, sa): 50.3pts; Banorte: 50.9pts; consensus: 51.1pts; previous: 51.0pts**
- **IMEF Non-manufacturing PMI (April, sa): 53.2pts; Banorte: 53.0pts; consensus: 53.0pts; previous: 51.9pts**
- **Both indicators remained in expansion territory, despite a mixed performance. Specifically, manufacturing backtracked on some of last month's gains, with relevant declines in 'production' and 'inventories', in our view, impacted by supply chain shocks worldwide**
- **Meanwhile, the non-manufacturing was better, reaching a new high since mid-2017. This may be related to a mostly favorable outlook regarding the virus which has allowed for reduced social distancing and increased activity**
- **While we remain optimistic about the recovery, the report does flag risks for the manufacturing sector, possibly resulting in a moderation in the pace of growth. Meanwhile, services should continue to be benefited by further gains in the epidemiological front**

Mixed results within IMEF's PMIs. The manufacturing indicator reached 50.3pts, lower by 0.7pts relative to the previous month. Meanwhile, the non-manufacturing indicator stood at 53.2pts, up 1.3pts sequentially. While both metrics remained in expansion territory (above the 50bps threshold), the report suggests some risks for the former, which in our view are related to global factors. However, we believe that an important limit to a more relevant decline may have been some support from abroad, mainly, the US. For the latter, performance seems to be gaining more momentum, with improvements in the epidemiological front being key. In addition, strong remittances and a seemingly more positive outlook domestically might also be weighing on the sector.

Manufacturing lower after some risks may be exacerbating. This indicator reached 50.3pts, with March's data revised higher to 51.0pts from 50.7pts. In our view, this is likely driven by mounting challenges for producers given supply-chain constraints, which seem to be extending beyond semiconductors. In this context, reports have continued to surface regarding port delays across the world, especially in the US. This may be having a compound effect on activity, impacting the deliveries of raw materials, which in turn delays shipments across the production process. This is evident across sectors, with 'production' (-1.9pts) and 'inventories' (-1.6pts) taking a relevant hit. Nevertheless, and somewhat strange considering the situation, 'deliveries' were higher by 1.4pts. A possible explanation for this is that some of the uptick in production after shocks in February may have been unloaded until this month. However, strength in demand seems to persist, with 'new orders' mostly unchanged (+0.1pts). We believe that this is key for the outlook to remain favorable, especially if the domestic sector also gathers momentum. Lastly, 'employment' was practically unchanged (-0.1pts), leading us to maintain caution on this front until 'hard data' becomes available.

May 3, 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

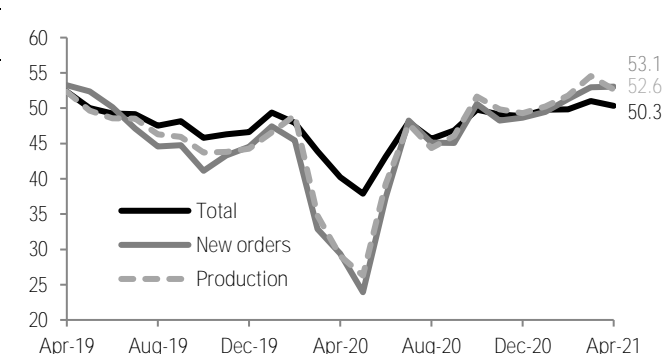
Document for distribution among the
general public

IMEF's manufacturing indicator
Seasonally adjusted figures

	Apr-21	Mar -21	Difference
Manufacturing	50.3	51.0	-0.7
New orders	53.1	53.0	0.1
Production	52.6	54.6	-1.9
Employment	52.2	52.4	-0.1
Deliveries	49.1	47.7	1.4
Inventories	47.2	48.8	-1.6

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing keeps improving. This indicator stood at 53.2pts, building up on the 51.9pts seen in March. However, figures for this latter month were revised strongly to the downside, with the first print at 52.8pts. Despite of this, the indicator reached its highest level since August 2017. This is probably tied to a further improvement on the virus, considering that the ‘traffic light indicator’ reached its best levels in the middle of the month. We should note that there was a slight deterioration in the final week in some states, with the next update to be published this upcoming weekend. Despite of the latter, the overall trend of new cases continues to be to the downside, which we believe suggests that concerns might be transitory. On top of this, we identify other positive drivers, including: (1) Higher-than-expected remittances, boosting available income for low-income families; (2) some leftover resources from social programs’ payments which were brought forward to March; and (3) some dynamism as the electoral season starts. Looking at the breakdown, three out of the four components were higher. Among these we highlight ‘production’ (+4.7pts) and ‘new orders’ (+2.5pts), reflecting both higher dynamism and a more positive outlook. On the contrary, performance in ‘employment’ was identical to manufacturing at -0.1pts.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Apr-21	Mar -21	Difference
Non-manufacturing	53.2	51.9	1.3
New orders	56.4	53.9	2.5
Production	57.7	53.0	4.7
Employment	49.3	49.4	-0.1
Deliveries	51.7	49.6	2.1

Source: IMEF

We remain optimistic about the recovery, albeit with some risks becoming more concerning. The report continues to be favorable despite the decline in manufacturing, as both indicators stand above the 50pts benchmark. This signals that the recovery continues. However, the pace in the latter sector could start to come into question, with risks gathering traction. As we elaborated previously, supply chains have become quite stressed, with a mismatch between demand and supply of some components being more evident. While some of these issues were present since before the pandemic –such as is the case for semiconductors–, others have exacerbated as a result of several factors, going from closing factories to changing consumption patterns.

In this context, industry reports suggest that while manufacturers of key components are making some strides in solving the issues, some distortions could persist well into 2H21. As a result, this will probably be a relevant drag for further improvements, despite demand coming back strongly –especially in the US on strong fiscal stimulus–. We will continue to monitor the situation closely, looking for possible adjustments on manufacturing processes and on some possible solutions to shortages.

Turning to the non-manufacturing index, the outlook keeps improving, which we believe is very favorable as we were relatively more downbeat on it at the start of the year. Specifically, the report adds some credence to other hard data which suggests that domestic demand is recovering with some strength, such as the [latest trade balance report](#). In this context, we think that the main driver will continue to be the evolution of the virus and activities that may restart or gather dynamism as a result of the latter. One of these key sectors will be tourism, as it is highly dependent on social interaction, as well as being relatively isolated to the shock on manufacturing (relative to other such as retail and wholesale). However, another pillar will be employment, which so far has given signs of a strong comeback in [recent months](#).

All in all, we expect activity to gather momentum in coming months, benefiting as stimulus from the US permeates further into our country and the vaccination program keeps moving along. We should mention that inoculations for teachers will begin in the middle of May, with the next phase of the program (people between 50 and 59 years old) being announced last week. In this context, we keep forecasting [GDP to grow 5.9% in 2021](#).

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 Godínez	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	hugoa.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
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.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.rolan.ferrer@banorte.com	(55) 5004 - 1454