

## IMEF's PMI surveys – Economic weakness likely extended to January

- **IMEF Manufacturing PMI (Jan, sa): 48.8pts; Banorte: 50.6pts; previous: 51.8pts**
- **IMEF Non-manufacturing PMI (Jan, sa): 49.0pts; Banorte: 49.4pts; previous: 51.9pts**
- **Both indicators backed off relative to the previous month and reached contraction territory, alluding to renewed economy weakness at the start of the year. This had not been seen since February 2021, when the country was facing the second wave of the pandemic**
- **All components fell in manufacturing, highlighting ‘employment’ and ‘inventories’. However, we also saw relevant adjustments in ‘production’ and ‘new orders’, suggesting that difficulties remain in the sector**
- **In non-manufacturing, the greatest declines were in ‘production’ (-8.9pts) and ‘employment’ (-7.3pts) with both returning below the 50pts threshold**
- **These results reinforce downside risks for activity in 1Q22, despite slight sequential contractions in the two previous quarters**

**IMEF's PMIs weaken in January.** The manufacturing resulted on 48.8pts, below the 53.2pts of the previous month, with a slightly upward revision. The non-manufacturing stood at 49.0pts from 52.8pts. In first place, both indicators fell below the 50pts threshold, a level which separates expansion from contraction. This had not been seen since February 2021, when the country faced COVID-19's second wave. Besides, declines were broad among subcomponents in the two subsectors considered by the survey. In our view, the deterioration is partially explained by the rebound in Omicron cases, which was clearer since the beginning of the month. Although authorities did not announce closures in a bid to mitigate their economic effect, the latter has been present and greater than anticipated. Growing population concerns were also reflected in the drop of mobility indicators, which exceeded pre-pandemic levels in December. Apart from this, it's likely that we have seen an additional impact on labor productivity, not only from infected people, but also from voluntary confinements and family care needs. In this respect, the labor market probably deteriorated in the period, as suggested by the strong increase in applications for temporary leave due to the disease among IMSS affiliates.

**Manufacturing decline led by ‘employment’.** This component backed off from 48.1pts to 52.5pts”, its largest setback since May 2019. On the other hand, ‘inventories’ fell 5.4pts, with month-to-month changes in this component much more volatile than before. We think this reflects the ongoing challenges that companies face in adjusting to bottlenecks in supply chains. Either way, the negative signal is reinforced by the declines in ‘production’ and ‘new orders’. We believe this is more worrisome for the short-term outlook, suggesting an impact on demand, probably influenced by strong accumulated price increases in goods since last year.

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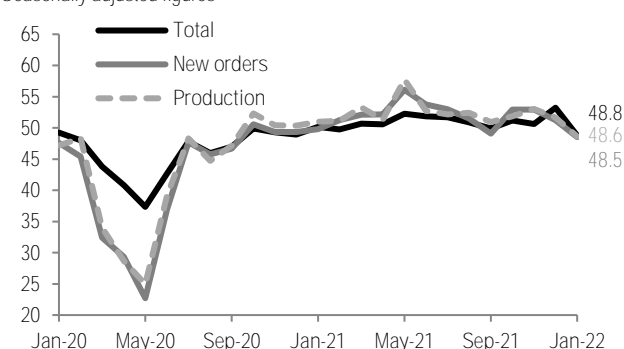
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**IMEF's manufacturing indicator**  
Seasonally adjusted figures

	Jan-22	Dec-21	Difference
Manufacturing	48.8	53.2	-4.5
New orders	48.5	51.2	-2.7
Production	48.6	51.7	-3.1
Employment	48.1	52.5	-4.4
Deliveries	47.2	51.0	-3.9
Inventories	50.6	56.0	-5.4

Source: IMEF

**IMEF's PMI manufacturing indicator**  
Seasonally adjusted figures



Source: Banorte, IMEF

**Non-manufacturing also weakened significantly.** In the subcomponents, the biggest decline was in ‘production’ (-8.9 pts) followed by ‘employment’ (-7.3 pts), which looks consistent with reports of increased work absenteeism. In addition, the less impacted component was ‘deliveries’. Although high uncertainty could dissipate if it is confirmed that curve of daily contagions has left all-time highs behind, dynamics by components warn about the need to be increasingly cautious. Specifically, low levels of ‘production’ –minimum since October 2020– are consistent with other signs of more persistent weakness in domestic demand.

**IMEF's non-manufacturing indicator**  
Seasonally adjusted figures

	Jan-22	Dec-21	Difference
Non-manufacturing	49.0	52.8	-3.8
New orders	49.9	55.3	-5.3
Production	48.2	57.1	-8.9
Employment	47.8	55.2	-7.3
Deliveries	50.8	51.9	-1.1

Source: IMEF

**Economics difficulties could prevail in the current quarter.** After the release of the [preliminary GDP of 4Q21](#) last Monday, we placed on revision our growth forecast for this year, with risks tilted to the downside. Unfortunately, today's results reinforce the hypothesis of more persistent weakness. We believe COVID-19 dynamics remain important, albeit no longer decisive for the economy, especially relative to 2020 and 2021. Specifically, the population is more adapted and seems to limit its activities less and less with each wave. While this could change if new and more dangerous variants emerge, vaccines and treatments have so far proven to be quite effective.

Despite of the above, news about the effects of the virus have been mostly negative, highlighting: (1) Closures of some key places for international trade in China, with the government keeping strong restrictions ahead of the Winter Olympics, which start this week, (2) flights cancellations by domestic airlines (e.g. Aeroméxico) given the strong increase in infections among pilots and flight attendants, a situation that may have replicated in other industries with high social interactions. The epidemiological ‘traffic light’ indicator began worsening again, including in Nuevo León, Mexico City and the State of México (to name a few). We believe this still influences people's decisions, albeit to a lesser extent than in previous waves.

On the other hand, we are increasingly concerned about the effect of rising prices on aggregate demand, not just on supply. As a result, we will continue monitoring even more closely the components related to inflation in confidence surveys among consumers, businesses and analysts. These include measures of purchasing power of durable goods, factors of concern for the economy, and medium- and long-term inflation expectations. This seems especially relevant after the increase in basic goods' prices with relatively inelastic demand, such as food –e.g. some fruits and vegetables and processed– and gasoline. Lastly, we do not rule out effects on both industry and services in the case of weather-related events related to the winter, such as in February last year with gas supplies (and already with flight cancellations in New York due to a cyclone).

Therefore, we are cautious about economic performance in the short term, while also accounting for the weakness already experienced during 2H22, which could extend to at least the first quarter.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez and Gerardo Daniel Valle Trujillo, 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.

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