IMEF's PMI surveys – Further signs of improvement in March bode well for 1Q22

April 1, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

- ***IMEF* Manufacturing PMI (Mar, sa): 52.3pts; Banorte: 51.3pts; previous: 51.1pts**
- ***IMEF* Non-manufacturing PMI (Mar, sa): 52.8pts; Banorte: 49.9pts; previous: 51.1pts**
- **Both indicators reaffirmed its position in expansion territory. In our opinion, this is consistent with signs of further reactivation in activity and the resilience of some fundamentals. We highlight the strong performance in 'new orders' in both subsectors**
- **In manufacturing, 'inventories' was the only one lower by 1.9pts, maintaining a volatile trend. Remaining components rose, noting 'employment' and 'deliveries'**
- **In non-manufacturing, all sectors improved. 'Production' was quite strong, while 'deliveries' managed to climb to the 50pts threshold**
- **Results for the full quarter suggest that the economy grew in sequential terms. Nevertheless, global growth risks have increased again. In the short-term, the most relevant are the effect of the war in Ukraine and rising COVID-19 cases that could affect trade once again**

***IMEF's* PMIs gathered pace in March.** Manufacturing picked up to 52.3pts, with the previous month revised marginally to the upside to 51.1pts. Non-manufacturing also increased and even in a greater proportion, from 51.1pts (also revised up) to 52.8pts. We consider that the uptick stems from an additional improvement in virus conditions locally and in other regions, such as the US. Hence, mobility in both countries kept improving, even with signs in Mexico that it might be already reaching an upward limit. In the case of manufacturing, we believe foreign demand remains the key driver. Supporting this, although PMIs in the US were mixed between the *ISM* (decelerating) and *S&P Global* (increasing), both metrics remain firmly above 50pts, signaling that performance is quite strong. On non-manufacturing, other domestic factors may have played a bigger role, such as payments of social programs which were brought forward due to the electoral ban. However, we still consider that prevailing inflationary pressures might be dampening performance across both sectors.

Manufacturing mostly higher, with the move led by 'new orders'. This component increased from 51.0pts to 53.8pts, which we consider quite positive as it also conveys that momentum might continue in coming months. Also favorable, 'employment' rose 1.7pts to 52.6pts, while 'production' was up 0.5pts to 51.4pts. The increase in these three core components leads us to believe that some of the gains might be more long lasting, and thus, more evident in hard data. Meanwhile, 'deliveries' expanded to 50.8pts (+1.1pts) while 'inventories' fell 1.9pts to 52.8pts after notable gains in the previous month. As such, we believe that volatility in the latter two components might continue as disruptions to supply chains keep representing challenges for firms.

Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

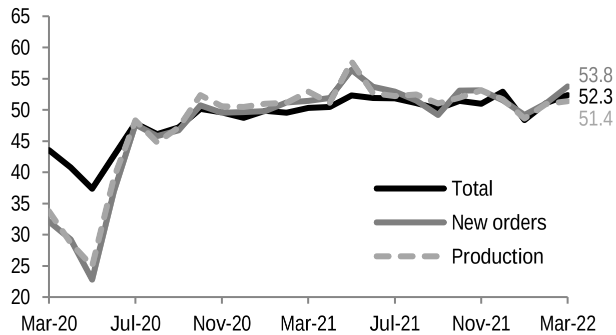
STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

IMEF's manufacturing indicator
Seasonally adjusted figures

	Mar-22	Feb-22	Difference
Manufacturing	52.3	51.1	1.3
New orders	53.8	51.0	2.8
Production	51.4	50.9	0.5
Employment	52.6	50.9	1.7
Deliveries	50.8	49.7	1.1
Inventories	52.8	54.7	-1.9

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing also supported by 'new orders'. This subcomponent went from 53.6pts to 56.4pts, highest since June 2021. In our view, this might correspond to higher mobility along expectations of better epidemiological conditions, or in its place, more modest shocks in case of new outbreaks. Also strong, and likely boosted by the same factors, 'production' climbed to 54.8pts (+2.3pts). Meanwhile, 'deliveries' and 'employment' were more modest, but still consolidating some gains. With this, now all components are above or at least in line with the 50pts expansion threshold and support other signals of an improvement in domestic demand.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Mar-22	Feb-22	Difference
Non-manufacturing	52.8	51.1	1.7
New orders	56.4	53.6	2.7
Production	54.8	52.5	2.3
Employment	51.7	51.0	0.7
Deliveries	50.0	49.0	1.0

Source: IMEF

IMEF indicators signal positive dynamics for GDP in 1Q22, but with mounting risks ahead. The manufacturing and non-manufacturing sector indicators averaged 50.6pts and 50.9pts in the quarter, signaling that the economy managed to grow sequentially. In this sense, performance has been better than initially expected, especially considering: (1) Some weakness in 2H21; (2) the Omicron wave that hit our country more clearly since January, affecting mostly the labor market; and (3) persistent price pressures impacting families' real incomes. As such, we now believe that risks to our 0.5% q/q 1Q22 GDP forecast are skewed to the upside.

However, risks going forward have increased. Firstly, the continuation of the conflict in Ukraine –still with uncertainty over when it might get resolved– and subsequent sanctions will continue to weigh on commodities, especially energy. The latter might remain pressured despite the release of oil reserves by the US for the following six months. In addition, risks to the global supply of key items such as wheat and fertilizers might jeopardize some sectors in our country. Moreover, reports of rising contagions in China, triggering new lockdowns in large cities, such as Shanghai, will likely result in further disruptions to supply chains, limiting growth in the manufacturing sector.

Meanwhile, signs for non-manufacturing might be better at the margin, with anecdotal evidence of more people returning to in-person work. This could have a positive fallout on related services, as we have mentioned previously. In addition, data from prices suggests that the uptick in tourism due to the Easter holiday will also be substantial. Nevertheless, the gap left from social transfers in the next few months could impact some sectors, as some figures suggest that spending is usually front-loaded when payments arrive.

All in all, while observed performance was rather positive, we believe risks in coming months have increased. In particular, the overall impact of some of the latest shocks is still uncertain but is surely negative. As such, we believe that risks might be tilting to the downside for our full-year GDP forecast of 2.4%.

Analyst Certification

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, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaías Rodríguez Sobrino, 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.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Analyst, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 2755
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
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
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) 1670 - 1899