

## IMEF's PMI surveys – Mixed results, although dynamism continues

- **IMEF Manufacturing PMI (April, sa): 52.5pts; Banorte: 52.6pts; previous: 51.9pts**
- **IMEF Non-manufacturing PMI (April, sa): 53.0pts; Banorte: 53.0pts; previous: 53.6pts**
- **Although both indicators remained in expansion, there were differences in the monthly performance. Manufacturing extended dynamism in a challenging environment, while non-manufacturing slowed down**
- **In manufacturing, ‘new orders’ and ‘production’ led gains, with ‘inventories’ still volatile. Meanwhile, ‘employment’ and ‘deliveries’ were lower, reversing some of the progress seen in the previous month**
- **In non-manufacturing, we saw the opposite, with resilience in ‘employment’ and ‘deliveries’, while ‘new orders’ and ‘production’ fell**
- **These results suggest that the recovery of the economy could continue, although possibly at a slower pace. At the margin, risks seem to be higher, which could affect dynamism**

**Mixed dynamics for IMEF's PMIs, but still positive in April.** Manufacturing picked up to 52.5pts, with the previous month revised lower to 51.9pts. Non-manufacturing lost momentum, resulting in 53.0pts from 53.6pts, albeit with this latter figure adjusted much higher. As such, both indicators remained above the expansion threshold for a third consecutive month, suggesting that the economic expansion may continue in 2Q22. Overall, virus conditions remained stable, helping to consolidate mobility levels. Nevertheless, price pressures remain and, in some cases, even worsened. In manufacturing, we believe there was still a boost from abroad, mainly from the US, with positive signs from the sector. However, considering the impact on supply chains given rising cases in China and other issues, challenges seem to be greater. In non-manufacturing, we believe the consolidation of consumption fundamentals (e.g. employment, remittances) keeps supporting the sector. Despite of this, there are strong limitations stemming from high inflation and a possible shock due to changes in spending after the early disbursement of resources from social programs because of the electoral ban.

**Manufacturing keeps climbing, with growth led by ‘new orders’ and ‘production’.** The first component rose to 55.3pts (+1.5pts), with the second at 52.9pts (+1.2pts), which is quite positive as it comes in a relatively difficult context despite strength from abroad. ‘Employment’ stalled at 50.3pts (-0.4pts), which could be related to technical stoppages due to the lack of inputs that keep affecting several sectors, including autos. Regarding components related to logistics, volatility continues, with ‘inventories’ up strongly to 53.2pts (+1.6pts), but with ‘deliveries’ lower at 49.7pts (-1.1pts). Although part of the adjustment is due to backlash after moves in the opposite direction in the previous month, changes lead us to believe that companies are still facing problems in supply management, which will most likely continue to limit production in the short-term.

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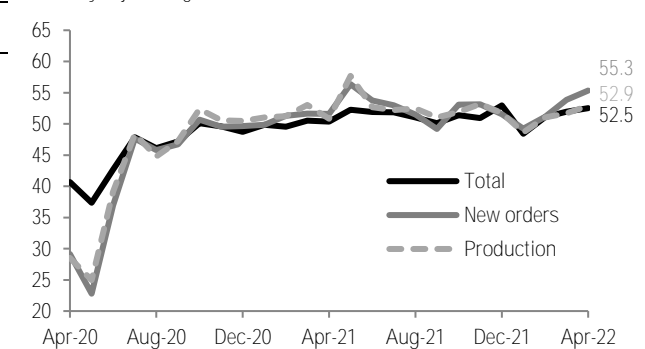
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**IMEF's manufacturing indicator**  
Seasonally adjusted figures

	Apr-22	Mar-22	Difference
Manufacturing	52.5	51.9	0.6
New orders	55.3	53.9	1.5
Production	52.9	51.7	1.2
Employment	50.3	50.7	-0.4
Deliveries	49.7	50.8	-1.1
Inventories	53.2	51.6	1.6

Source: IMEF

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



Source: Banorte, IMEF

**On the contrary, non-manufacturing was dragged by ‘new orders’ and ‘production’.** These components came in at 55.3pts (-1.9pts) and 54.8pts (-1.5pts), albeit still the two strongest within the sector. We believe the slowdown could have been due to a reversal after the early payments of social programs. Specifically, we believe people may have brought forward some of their spending to February and March, leaving fewer resources to be used in April. In addition, we do not rule out an additional downturn as inflation keeps climbing, particularly in food items, which could impact spending in non-essential categories. On the other hand, ‘employment’ improved to 52.1pts (+0.6pts), with ‘deliveries’ also higher at 49.2pts (+0.4pts). At the margin, the last item has been more stable in this category relative to manufacturing, probably with less ties to external distortions.

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

	Apr-22	Mar-22	Difference
Non-manufacturing	53.0	53.6	-0.5
New orders	55.3	57.2	-1.9
Production	54.8	56.2	-1.5
Employment	52.1	51.6	0.6
Deliveries	49.2	48.8	0.4

Source: IMEF

**The recovery will continue in the second quarter, although likely at a slower pace.** After the [resumption of the recovery in 1Q22](#), we still believe the economy will keep growing, mainly driven by external demand, although also with a consolidation in domestic consumption. Nevertheless, risks have increased significantly, consistent with our forecast of just +0.4% q/q in the second quarter.

On manufacturing, prices of several inputs had been increasing even before the beginning of the war in Ukraine. The latter event exacerbated bottlenecks, especially for energy, some grains, and fertilizers. In addition, lockdowns in China have been extended for longer than anticipated, with Shanghai racking up more than a month of heavy restrictions, and which could happen in Beijing as well. According to different reports, export capacity at the port of the former city has been reduced by about 30%, although with a differentiated impact by type of cargo and the possibility that this will worsen.

In the US demand remains strong. However, it could start to moderate given the Fed's monetary tightening, with higher expectations that the US economy could enter recession in a period of 12-24 months. For now, the manufacturing ISM in April, published today, moderated to 55.4pts (-1.7pts), its lowest since July 2020. The report states that supply and labor issues continued, despite a moderation in costs increases. As such, this still bodes well for short-term performance in our country.

As for non-manufacturing, the biggest risk is still price pressures. Although they continue to be influenced by external factors, there are also some signs of a greater pass-through of cost increases to final prices. In this backdrop, we anticipate that Banxico will continue with a quite restrictive monetary policy despite economic slack –as activity has not yet reached the levels seen before the pandemic–. In addition, we are waiting from an announcement by the Federal Government's regarding the strategies they plan to carry out to limit strong price increases, especially of food items. Moreover, we will keep evaluating if there is a change in people's consumption patterns due to better pandemic dynamics, a situation that could moderate the high demand in goods relative to services.

Despite of this situation, we consider that positive factors for both sectors should continue to boost activity throughout the quarter. On the other hand, and as some of these risks start to dissipate, we expect activity to gain further momentum in the second half of the year. This latter point is a key part behind our full-year GDP forecast of 2.1%.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, David Alejandro Arenas Sánchez, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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