

## IMEF's PMI surveys – Modest monthly decline in May, but still in expansion

- **IMEF Manufacturing PMI (May, sa): 50.8pts; Banorte: 51.3pts; previous: 52.4pts**
- **IMEF Non-manufacturing PMI (May, sa): 52.5pts; Banorte: 52.3pts; previous: 53.0pts**
- **Both indicators fell, although achieving four consecutive months in expansion territory. Manufacturing was the most impacted, likely affected by a more challenging global backdrop. Meanwhile, non-manufacturing extended the slowdown that began in the previous month**
- **In manufacturing, ‘production’ and ‘deliveries’ were better, with the latter almost erasing its previous drop. The decline was led by ‘new orders’, while ‘employment’ is the only one below the expansion threshold**
- **In non-manufacturing, all components were lower, with most of the weakness centered in ‘new orders’ and ‘production’. In this category, ‘deliveries’ are the only ones under 50pts**
- **These results suggest that the recovery of the economy could continue, although possibly at a slower pace. At the margin, risks are higher, which could affect dynamism**

**IMEF's PMIs decline, but remain in expansion.** Manufacturing fell to 50.8pts, with the previous figure revised slightly down to 52.4pts. Non-manufacturing extended its decline, standing at 52.5pts from 53.0pts, with no adjustments to the previous figure. As such, both remained above the expansion threshold for a fourth consecutive month, suggesting some resilience in the face of a series of challenges. In manufacturing, pressures in industry kept rising. Lockdowns in China have impacted input prices and worsened supply chain bottlenecks. This has caused some companies in certain industries –such as the auto sector– to rethink their production goals for 2022. On a more positive note, US demand remains strong, helped by a positive evolution of employment. On the other hand, savings are starting to fall more meaningfully, while some households may be opting for higher borrowing. Both may well be a sign that consumers are resenting price pressures. In non-manufacturing, lower concerns about contagions have contributed to the abovementioned resilience through the consolidation of mobility. In addition, fundamentals have recovered further (*e.g.* employment, credit and remittances). However, in our view, the main limitation comes from inflation, with food and energy prices globally staying highly pressured.

**Manufacturing declines, erasing recent gains.** ‘New orders’ dropped the most, to 51.4pts (-4.0pts). On the contrary, ‘production’ rose to 53.1pts (+0.2pts), modest but quite positive given its recent advance and the factors already described above. ‘Employment’ was lower and is back to contraction territory, at 49.5pts (-0.9pts). This could be reflecting new technical stoppages, especially in the auto sector. Similar to the previous period, components related to logistics remain very volatile, reversing moves seen in April. ‘Deliveries’ recovered and returned to expansion (50.8pts; +1.2pts). On the other hand, ‘inventories’ fell by 1.8pts to 51.3pts, likely reflecting supply problems that industry continues to face.

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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

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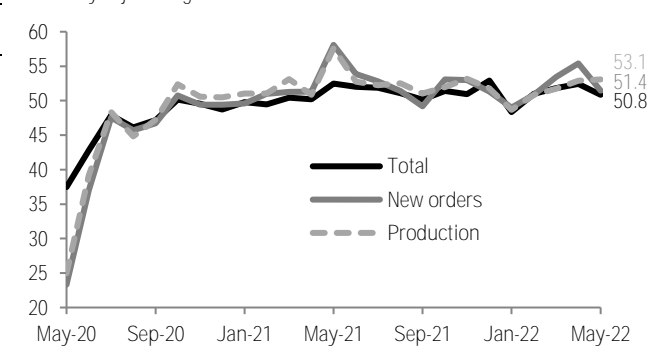
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**IMEF's manufacturing indicator**  
Seasonally adjusted figures

	May-22	Apr-22	Difference
Manufacturing	50.8	52.4	-1.6
New orders	51.4	55.4	-4.0
Production	53.1	52.9	0.2
Employment	49.5	50.4	-0.9
Deliveries	50.8	49.6	1.2
Inventories	51.3	53.1	-1.8

Source: IMEF

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



Source: Banorte, IMEF

**Non-manufacturing was also weaker, with all components lower.** ‘Production’ saw the steepest decline, standing at 53.5pts (-1.2pts), while ‘new orders’ moderated its rate of decline, to 54.9pts (-0.7pts). In our opinion, these losses could be related to base effects and persistent inflationary pressures. In addition, the absence of social programs payments –which were brought forward because of the electoral ban– could be having an effect. Lastly, ‘employment’ fell to 51.5pts (-0.4pts), while ‘deliveries’ edged down to 49.1pts (-0.1pts), with the latter being the only sector below the 50pts threshold for a fourth consecutive month.

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

	May-22	Apr-22	Difference
Non-manufacturing	52.5	53.0	-0.5
New orders	54.9	55.6	-0.7
Production	53.5	54.7	-1.2
Employment	51.5	51.9	-0.4
Deliveries	49.1	49.2	-0.1

Source: IMEF

**The recovery could be compromised in the short-term, with added challenges possibly offsetting for demand dynamism.** Although external and local demand keep providing an important boost for both indicators, certain factors could affect performance in the short-term. In manufacturing, pressures from higher input costs are likely to continue in 2Q22 and beyond. The length of the war in Ukraine adds uncertainty about the normalization in the supply of some goods, especially commodities and energy. Meanwhile, weak car sales in the US, China and Europe have led auto companies such as Toyota to cut their global production plans in the short-term (June 2022), also on the back of the semiconductors’ shortage. Domestically, CANACINTRA announced that technical stoppages in the auto industry would continue throughout 2022, since they estimate that the supply of microchips will return to normal until November. Related to this, the Volkswagen plant in Puebla stopped operations temporarily in two production lines during the month of May. This suggests that the manufacturing industry will continue facing limits to production and employment growth, at least in the short-term.

On a positive note, the easing of lockdowns in Shanghai as of June 1<sup>st</sup> could represent much needed relief for industry, allowing disruptions to decrease and boost local production at the end of the second quarter. In addition, May's ISM manufacturing in the US surprised positively, being that the headline index rose to 56.1pts from 55.4pts in the previous month, with almost all components higher. Given these two factors, the indicator will likely close 2Q22 above the 50pts threshold.

For non-manufacturing, short-term performance may be limited by price pressures that could extend to June, particularly at the core component. On top of this, additional headwinds may come from Banxico's tightening cycle. According to our estimate, a faster pace of +75bps is slated for June, with the reference rate closing 2022 at 9.50%. Both factors may impact the demand for non-essential and durable goods. However, remittances should remain as a driver for local consumption. Looking further ahead, services are likely to get an additional boost from the return of social program payments, as well as an increase in tourism-related categories.

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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, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, 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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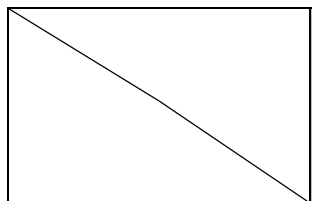
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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

<b>Research and Strategy</b>			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	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
<b>Economic Research</b>			
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
Yazmin Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaias Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
<b>Equity Strategy</b>			
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 1746
Oscar Rodolfo Olivos Ortiz	Analyst	oscar.olivos@banorte.com	(55) 1103 - 4000
<b>Corporate Debt</b>			
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
<b>Quantitative Analysis</b>			
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
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesil@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
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) 5004 - 1051
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) 1670 - 1899