IMEF's PMI surveys – Mixed results, with both indicators in expansion

October 3, 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

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

- ***IMEF* Manufacturing PMI (September, sa): 50.1pts; Banorte: 49.8pts; previous: 49.5pts**
- ***IMEF* Non-manufacturing PMI (August, sa): 50.9pts; Banorte: 51.5pts; previous: 51.5pts**
- **Results were mixed, with manufacturing returning to expansion after a decline in the previous month, likely driven by better conditions in the US. On the other hand, services remain above the threshold, but lower once again, possibly due to additional price pressures**
- **In manufacturing, 'new orders', 'production', and 'employment' stand out due to their significant improvement. On the contrary, 'deliveries' weakened, consistent with some persistent challenges**
- **In non-manufacturing, moves were tighter, highlighting the fall in 'new orders' and with 'deliveries' as the only category in contraction territory**
- **We believe that these results are consistent with our expectation of a sequential expansion in GDP in 3Q22. However, going forward, risks are gaining momentum, but with some resiliency across the economy still present**

Manufacturing rebounds modestly, with non-manufacturing losing some momentum. Manufacturing rose to 50.1pts, with a marginal upward adjustment to August's print (by +0.1pts to 49.5pts). Meanwhile, non-manufacturing fell to 50.9pts, with a downward adjustment in the previous figures (by -0.4pts to 51.5pts). Both indicators are in expansion territory, although with different trends and narratives. Overall, the positive adjustment of manufacturing is more relevant due to still challenging local conditions. However, analyzing external conditions, there are positive signs that could favor the sector. In first place, a slight improvement in this same indicator for the US stands out – with the metric from *S&P Global* standing at 52.0pts from 51.5pts. This happened amid encouraging conditions such as more normalized supply chains and a moderation in cost pressures. Second, and despite a mixed performance in global shipping costs, levels continue to be significantly lower than the average over the last two years. Regarding non-manufacturing, despite the setback in the period, its performance shows signs of resilience, in line with what we expect from services, at least in 3Q22. In addition, the positive trend in consumer fundamentals continues. Employment performed well in the first two months of the quarter, despite possible seasonal distortions. Likewise, domestic activity continues to benefit from the high level of remittances, which we expect to continue. As such, we believe that the slowdown in the indicator is related to the persistent inflationary pressures.

Significant improvement in manufacturing. Although the advance does not compensate for setback of the previous period, it allows it to return to expansion territory. We do not rule out the prevalence of adverse factors such as persistent supply disruptions may be limiting the sector. Three out of the five components are located above the 50pts threshold.

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

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Document for distribution among the general public

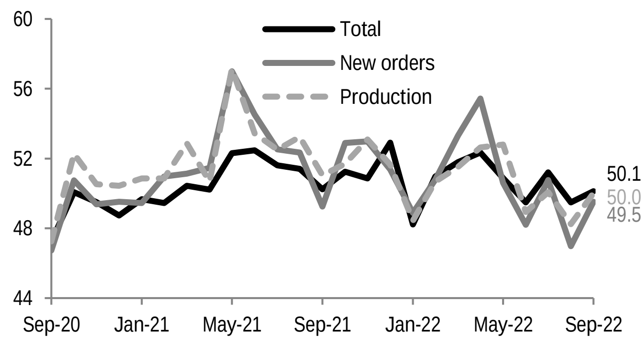
Although 'new orders' had the biggest increase (2.5pts), it was slightly below expansion territory at 49.5pts. On the other hand, 'production' (50.0pts; +1.8pts) and 'employment' (50.8pts; +1.5pts) had a better performance in absolute terms. Regarding logistics categories, volatility continued for 'deliveries' with a drop of 3.4pts to 48.2pts. On the other hand, 'inventories' moderated their fall (-1.1pts to 51.4pts), remembering that in the previous month they contracted by 5.8pts.

IMEF's manufacturing indicator
Seasonally adjusted figures

	Sep-22	Aug-22	Difference
Manufacturing	50.1	49.5	0.6
New orders	49.5	47.0	2.6
Production	50.0	48.2	1.8
Employment	50.8	49.3	1.4
Deliveries	48.2	51.6	-3.4
Inventories	51.4	52.5	-1.1

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing sector decelerates for a second month in a row. Despite of the latter, in our view the sector continued to show signs of resilience, in line with our estimates. In this sense, we do not rule out that services may recover their dynamism in the short-term supported by fundamentals and thus maintain the momentum of domestic demand. By sectors, only 'deliveries' remained below the expansion threshold, although closing this gap (+0.6pts to 49.8pts). On the contrary, 'new orders' had the most relevant decline, by -1.5pts to 51.8pts. Lastly, 'production' (51.4pts) and 'employment' (51.3pts) had more modest adjustments.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Sep-22	Aug-22	Difference
Non-manufacturing	50.9	51.5	-0.6
New orders	51.8	53.3	-1.5
Production	51.4	51.9	-0.5
Employment	51.3	51.6	-0.2
Deliveries	49.8	49.3	0.6

Source: IMEF

We remain optimistic for both domestic and foreign demand, albeit noting increasing risks. Today's results are consistent with our vision of dynamism during 3Q22. Although we believe that the balance of risks has worsened on different fronts, the resilience of industry, as well as services, will allow activity to maintain sequential growth in the third quarter. At the local level, we highlight greater stability, except for inflation, which we expect to continue to rise in the remainder of 2022. External factors are, once again, the main source of concern, possibly implying disruptions of a higher magnitude. Fears of a recession in the US, Russian plans to annex Ukrainian territory, and uncertainty in financial markets, are just some of the main risk factors heading into 4Q22.

Regarding manufacturing and in short-term, we will be focusing on the evolution of industrial production in the US, with special interest in the southeast coast given damages of Hurricane Ian. On the other hand, we believe that the fall in energy prices could continue to favor confidence of producers and consumers in that country, which could boost demand for Mexican manufacturing. At the domestic level, the sector is currently benefiting from low transportation costs and stable delivery times from Asian imports –due to excess capacity–, an effect that can be quite useful considering that in this season, inventories tend to increase before the holiday season. In addition, inflationary pressures for manufacturing producers seem to be slowing down since last June. Moving on to the medium-term, some of the positive factors for manufacturing would be: (1) The resolution of the USMCA controversies, which seem to be on a positive track; (2) the strengthening of the project to manufacture semiconductors in Mexico as part of the US 'CHIPS and science act'; and (3) an increase in FDI as a result of nearshoring efforts, which would have an impact on other sectors of the economy (*e.g.* construction).

For non-manufacturing, we believe that domestic demand has the capacity to give it some additional boost to GDP towards the end of the year, with non-essential categories being the main drivers. In this context, hotel occupancy at the Mexican Revolution holidays (from November 18th to November 21st) is expected to exceed the level of 65% recorded on the September holiday. In addition to this, sales related to '*El Buen Fin*' would also be better, where sales of $195 billion are expected. The reactivation of the aforementioned sectors has been quite strong after the fourth wave of COVID-19, with a population that has learned to live with the virus. In this sense, our vision for the dynamism of the sector is already oriented towards the need of families to prioritize the acquisition of services before goods, since in recent years they have had to postpone this type of purchases.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, 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, Cintia Gisela Nava Roa, 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.

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
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000

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
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	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	Strategist, 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 1746
Oscar Rodolfo Olivos Ortiz	Analyst	oscar.olivos@banorte.com	(55) 1103 - 4000

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
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

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