IMEF's PMI surveys – Services rebound, with manufacturing more modest

- ***IMEF* Manufacturing PMI (October, sa): 50.1pts; Banorte: 49.5pts; previous: 50.3pts**
- ***IMEF* Non-manufacturing PMI (October, sa): 51.8pts; Banorte: 51.5pts; previous: 51.1pts**
- **Performance was mixed. Manufacturing fell but barely stayed above the expansion threshold, likely impacted by weakness from abroad. Services improved, in our view driven by recreational activities**
- **In manufacturing, 'production' and 'employment' accelerated, while 'new orders' declined. Finally, volatility in 'inventories' remains very high, declining to 50.0pts**
- **Changes in non-manufacturing were skewed to the upside, except for 'employment' which declined marginally. All categories stood in expansion territory**
- **We believe these results are consistent with our view for activity in the rest of the year, with risks mainly from abroad –having a larger effect in manufacturing–, but with domestic demand more resilient –benefiting services**

Manufacturing moderates, with non-manufacturing up. The manufacturing indicator fell to 50.1pts, with a slight upward adjustment in September's figure (by +0.2pts to 50.3pts). Meanwhile, non-manufacturing rose to 51.8pts, with an adjustment higher to previous data (by +0.2pts to 51.1pts). With these results, both remain in expansion. Regarding the former, we highlight some weakness in US industry, reflected in the same indicator from *S&P Global*, at 50.4pts from 52.0pts, its lowest level since June 2020. The latter was driven by lower demand, cost pressures for producers, and the build-up of inventories. Another factor weighing are increased fears of a recession by the end of 2022 or in 2023. On the domestic front, inflation dynamics are still challenging despite a decline in some commodity prices (*e.g.* gas, grains). Some producers have not managed to normalize their supply of inputs (*e.g.* resins, chips, packaging). On non-manufacturing, we believe the rise reflects the resilience of domestic demand. The latter was likely boosted by recreational activities and the strength of fundamentals, which continued to show good momentum in the latest prints.

Slight deterioration in manufacturing. Despite of the setback, the index stayed in expansion. Three out of five components were lower, with two below the 50pts threshold. We highlight the drop in 'new orders' (-0.3pts), stringing a third month in contraction. On the other hand, 'production' (51.7pts; +1.2pts) and 'employment' (51.2pts; +0.4pts) were the only ones up. Volatility in logistics components remains high, especially in 'inventories' (-1.8pts, to 50.0pts), while 'deliveries' fell by 0.1pts to 47.9pts, its lowest level since June.

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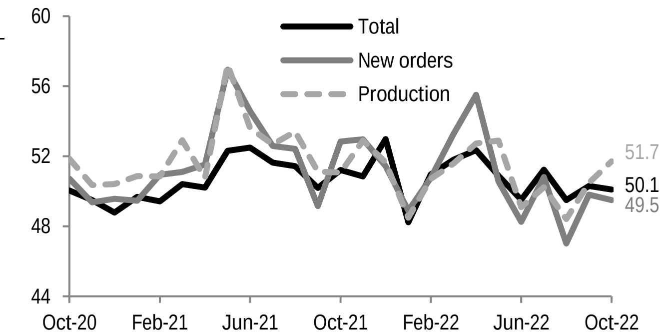
IMEF's manufacturing indicator
Seasonally adjusted figures

	Oct-22	Sep-22	Difference
Manufacturing	50.1	50.3	-0.2
New orders	49.5	49.8	-0.3
Production	51.7	50.5	1.2
Employment	51.2	50.8	0.4
Deliveries	47.9	48.0	-0.1
Inventories	50.0	51.8	-1.8

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

Non-manufacturing recovers after two months of losses. The increase was almost enough to erase the previous declines, which shows that domestic demand remains dynamic. In that sense, we expect services to continue driving activity through the end of 4Q22. Inside, almost all items were positive, with the only one lower being 'employment' (-0.2pts) to 51.2pts. On the contrary, and in our view quite positive, 'new orders' climbed to 54.0pts (+1.9pts), followed by 'production' (+0.6pts to 52.1pts) and 'deliveries' (+0.6pts to 50.4pts). All categories stood in expansion territory.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Oct-22	Sep-22	Difference
Non-manufacturing	51.8	51.1	0.7
New orders	54.0	52.2	1.9
Production	52.1	51.6	0.6
Employment	51.2	51.4	-0.2
Deliveries	50.4	49.8	0.6

Source: IMEF

Going forward, we see higher risks from abroad, while local demand could remain resilient. Today's results are consistent with our call for activity towards the end of the year, with industry –particularly manufacturing– more exposed to headwinds from the US, while domestic conditions seem stronger as fundamentals keep showing signs of strength. In this regard, yesterday we revised our GDP estimate for 2022 to +2.7% (previous: +2.1%). Hence, activity would be stable (0.0% q/q) in the fourth quarter.

In this context, we believe manufacturing could moderate due to different external factors, such as: (1) The extension of the war in Ukraine; (2) output cuts by OPEC+; (3) the US midterm elections; and (4) additional monetary tightening, among others. This is likely affecting US demand, with negative spillovers to our country. In addition, domestic challenges include: (1) Inflationary pressures; (2) supply chains' instability that could lead to longer buying cycles from producers; and (3) longer wait times in maritime transport in key ports (*e.g.* Veracruz, Lázaro Cárdenas, Ensenada and Manzanillo), due to a seasonal acceleration in flows and the hurricane season that affected some ports in October. Finally, we will keep an eye on the possible strike by US East Coast port workers. If it materializes, this could put extra pressures on domestic ports, as well as the production and delivery processes of Mexican manufactured goods.

For non-manufacturing, we expect consumer fundamentals (*e.g.* employment, remittances and credit) to keep fostering higher tourism domestically and recreational activities. Moreover, and as mentioned in other reports, domestic activity is likely to benefit from discounts towards the end of November, which could allow retail and auto sales to regain momentum after moderating at the end of 3Q22. On a negative note, we do not rule out less household spending in the face of current inflationary pressures.

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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, 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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