

## IMEF's PMI surveys – Plunging to historical lows on COVID-19 impact

- **IMEF Manufacturing PMI (April, sa): 40.5pts; Banorte: 38.7pts; consensus: 35.0pts; previous: 44.2pts**
- **IMEF Non-manufacturing PMI (April, sa): 35.5pts; Banorte: 31.3pts; consensus: 28.0pts; previous: 38.7pts**
- **The manufacturing indicator declined to a new historical low, with the strongest impact once again in ‘production’ (-6.7pts relative to March) and ‘new orders’ (-3.8pts), as expected**
- **Moreover, the non-manufacturing indicator furthered its decline from the previous all-time low, with also ‘production’ (-6.1pts) and ‘new orders’ (-6.9pts) as the main laggards**
- **Today’s data suggests a deeper contraction of economic activity in April, in line with our expectations, amid increased measures to fight COVID-19 in our country. In this respect, signals point to a relatively similar performance in coming months, and at least until social-distancing measures remain in place**

**IMEF's PMI's plunge once again in April.** The manufacturing index stood at 40.5pts, slightly higher than our estimate (38.7pts), which was above consensus expectations at 35.0pts. This is a new historical low, remembering that the series was first published in 2005. On the other hand, the non-manufacturing indicator decreased again, also reaching a new historical low of 35.5pts, albeit higher than our 31.3pts forecast. Overall and also as expected, in both indicators we highlight that most of the declines were concentrated in the ‘new orders’ and ‘production’ components, while ‘employment’ was also hit.

**Manufacturing highly impacted for a second month in a row.** The monthly decrease was -3.7pts, steepest since February 2017 and third strongest ever. As anticipated, the most impacted component was ‘production’, which fell 6.7pts relative to March, standing at 28.7pts. The ‘new orders’ component followed closely, going from 32.8pts to 29.0pts. In our view, the relative performance within the month is consistent with a more relevant impact in domestic output, as production was affected more strongly due to more significant social-distancing measures. Nevertheless, ‘new orders’ continues to reflect disruptions in global supply chains as the outbreak continued in the US, our main trading partner. Unlike the previous month, ‘employment’ fell strongly (-3.2pts) matching the performance in some timelier data, such as that presented by the head of IMSS, which suggested heavy losses at the start of the month. Moreover, ‘deliveries’ (-2.4pts) and inventories (-1.8pts) edged-down, retracing gains from the previous month but still above the 50pts threshold. Nevertheless, we believe this is a result of how questions are asked within the survey, skewing the index higher. In this sense, our attention going forward will be centered in ‘production’ and ‘new orders’, as we think these will carry more valuable information, at least in coming months.

May 4, 2020

www.banorte.com  
@analisis\_fundam

**Juan Carlos Alderete, CFA**  
Director of Economic Research  
juan.alderete.mactal@banorte.com

**Francisco Flores**  
Senior Economist, Mexico  
francisco.flores.serrano@banorte.com

Winners of the award for best economic forecasters for Mexico in 2019, given by *Refinitiv*



Document for distribution among the general public

### IMEF's PMI manufacturing indicator

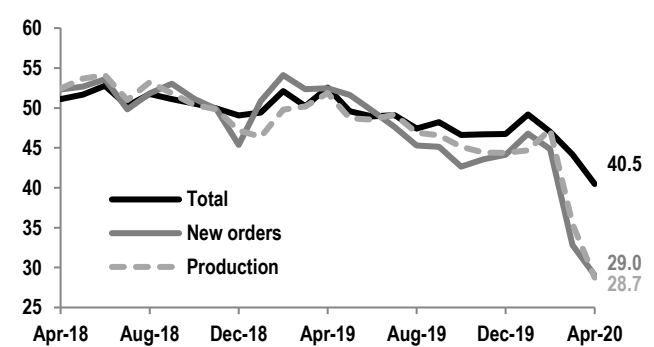
Seasonally adjusted figures

	Apr-20	Mar-20	Difference
<b>Manufacturing</b>	<b>40.5</b>	<b>44.2</b>	<b>-3.7</b>
New orders	29.0	32.8	-3.8
Production	28.7	35.5	-6.7
Employment	42.3	45.6	-3.2
Deliveries	50.1	52.5	-2.4
Inventories	53.8	55.6	-1.8

Source: Banorte, IMEF

### IMEF's PMI manufacturing indicator

Seasonally adjusted figures



Source: Banorte, IMEF

### The non-manufacturing indicator reached, once again, a new historical low.

For a second consecutive month, the non-manufacturing index fell to an all-time low, declining by 3.2pts. Similar to the manufacturing index, this was the third steepest decline, albeit emphasizing that it comes after the 9.7pts plunge in the previous month, weakest ever. ‘New orders’ were once again the weakest as they declined 6.9pts, coming in at 22.5pts. Moreover, ‘production’ was also very frail at 23.6pts (-6.1pts). ‘Employment’ extended losses, now at a new historical low of 41.7pts. On the contrary, ‘deliveries’ was the only one stronger at 53.9pts. Nevertheless, we believe it is skewed, similar to the manufacturing indicator. In this sense, these results are consistent with our view of a more significant impact in domestic demand, affecting construction as well as consumption, especially of non-essential goods and services.

### Non-manufacturing PMI indicator

Seasonally adjusted figures

	Apr-20	Mar-20	Difference
<b>Non-manufacturing</b>	<b>35.5</b>	<b>38.7</b>	<b>-3.2</b>
New orders	22.5	29.4	-6.9
Production	23.6	29.7	-6.1
Employment	41.7	44.2	-2.5
Deliveries	53.9	51.5	2.5

Source: IMEF

**Weakness to prevail in the short-term.** Considering that social distancing measures will continue at least through May, it is our take that economic activity, and thus PMI indices, will remain weak in coming months. Although news in the manufacturing sector suggest the need for a re-start in some key sectors, especially by some defense contractors in the US, it is unlikely that we will see an uptick in activity, as these activities are not considered essential in our country. Moreover, this is supported by results from the ISM manufacturing index in the US, which came in at 41.5pts from 49.1pts. We believe this points to the possibility that weakness has become more pronounced in our country, not only impacted by supply chain disruptions but also by measures to combat the virus, which in some cases have been stricter. Nevertheless, and going forward, as activity gathers momentum both in the US and in our country, strength from external demand, boosted by monetary and fiscal stimulus, should have favorable consequences in Mexico.

In non-manufacturing, results are consistent to what we have seen from web analytics such as those of *Open Table*, *Apple*, and *Google*, among others, as well as from industry contacts. We also expect consumption to be hit considerably, as people focus on purchases of essential goods and boost savings as uncertainty about the overall impact to activity and unemployment keeps climbing. In addition, investment should also remain weak, as portrayed by the most recent results within business confidence, with the ‘adequate moment to invest’ component in April reaching all-time lows in three out of four subsectors.

All in all, these results are consistent with our view of a [very weak second quarter](#), impacted by uncertainty and the broad deceleration of economic activity given the measures to fight the virus. In this sense, we maintain [our estimate of a 7.8% y/y contraction in 2020 GDP](#).

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	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.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	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>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
<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
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
<b>Corporate Debt</b>			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
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>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
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) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
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) 5004 - 1454