IMEF's PMI surveys – Similar improvement in both indices, albeit still in contraction

- ***IMEF* Manufacturing PMI (June, sa): 42.0pts; Banorte: 43.8pts; consensus: 42.0pts; previous: 37.6pts**
- ***IMEF* Non-manufacturing PMI (June, sa): 42.5pts; Banorte: 40.5pts; consensus: 40.0pts; previous: 38.1pts**
- **The manufacturing and non-manufacturing PMIs inched higher by 4.4pts. Although 'new orders' and 'production' increased the most in the two indicators, they remain as the weakest components, still signaling a challenging outlook going forward**
- **Today's data is consistent with highly impacted activity in 2Q20, with weakness centered mostly in April and May. Nevertheless, performance in some key categories gives credence to our view that weakness will linger around at the start of 3Q20**

***IMEF's* PMI's improve in June, although remaining in contraction.** The manufacturing index stood at 42.0pts, below our estimate (43.8pts) but in line with consensus. This represents a 4.4pts increase relative to May, which after being revised, is still new historical low, at 37.6pts (from 39.2pts last month. Meanwhile, the non-manufacturing extended the previous month's rise, standing at 42.5pts, better relative to both our forecast (40.5pts) and consensus (40.0pts). This was also 4.4pts higher than May's data. In both indicators, the components with the highest increases were 'new orders' and 'production', consistent with steps forward to restart the economy. Nevertheless, we should mention that these components remain as the weakest, which in our view still signals a challenging outlook going forward.

Manufacturing climbs back after a new historical low. Despite the 4.4pts improvement, the indicator remains firmly in contraction territory, still struggling to achieve some significant gains after declines in the four previous months. In addition, we believe that some of the delay in the recovery relative to other countries –such as the US, in which the ISM manufacturing is now back in expansion territory at 52.6pts, after three months in contraction– is explained by the extension of social distancing measures in our country. In this regard, and as we explained thoroughly in our GDP update, the framework for the restart of economic activity has resulted in a slower than expected recovery, with only some key sectors –such as autos–able to start with more dynamism, consistent with today's data. In this sense, and probably benefited by higher performance abroad, 'new orders' improved the most, climbing 13.0pts to 36.8pts. In addition, and as previously mentioned, 'production' was higher by 11.9pts to 37.8pts. Meanwhile, and in line with higher mobility and easing of some restrictions, 'deliveries' rose 3.2pts, while 'inventories', exhibited some relief, declining by 5.2pts. Finally, 'employment' was flat at 41.0pts, which we believe could translate into positive, or at least not so negative, figures in upcoming releases.

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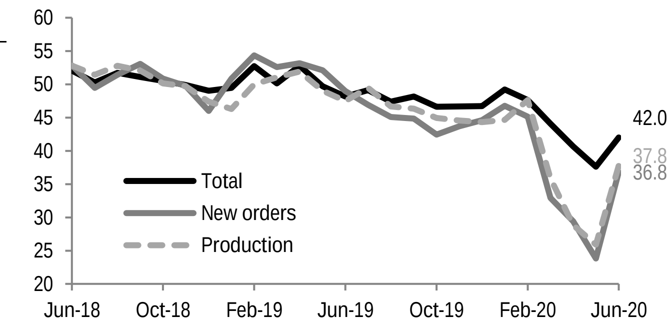
IMEF's manufacturing indicator
Seasonally adjusted figures

	Jun-20	May-20	Difference
Manufacturing	42.0	37.6	4.4
New orders	36.8	23.8	13.0
Production	37.8	25.9	11.9
Employment	41.0	41.0	0.0
Deliveries	50.2	47.0	3.2
Inventories	46.7	51.9	-5.2

Source: Banorte, IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator shows a slightly better performance. This indicator also went up by 4.4pts, extending the 2.5pts rise from the previous month (which was revised 0.1pts higher). Inside, 'production' advanced the most, +9.6pts, albeit reaching only 39.1pts. It was closely followed by 'new orders' at +8.5pts to 37.7pts. Meanwhile, deliveries, and contrary to what we saw in the other indicator, fell 0.5pts. Finally, 'employment' climbed 0.4pts to 42.2pts. In this sense, while the absolute level for the headline as well as comparable categories is higher relative to manufacturing, we believe the actual recovery might take longer in this sector, as uncertainty, on top of still subdued activity, impact consumption and other related activities.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Jun-20	May-20	Difference
Non-manufacturing	42.5	38.1	4.4
New orders	37.7	29.2	8.5
Production	39.1	29.5	9.6
Employment	42.2	41.8	0.4
Deliveries	51.6	52.1	-0.5

Source: IMEF

Strong impact on 2Q20, with still an uncertain short-term outlook. Despite some modest improvements in epidemiological conditions, large parts of the country remain under the strictest social distancing measures, which will surely continue taking a toll in overall activity. We believe this is reflected mainly in the performance of 'new orders' in both indicators, that while improving significantly, it is only happening after steep declines, with the indicators still very low in absolute terms.

However, we recognize there might be some additional boost in the pipeline from auto production within manufacturing given increased operations in Mexico – with reports suggesting activities restarted in the middle of the previous month– and the US. Nevertheless, considering risks lingering about the possibility of a second wave of contagions and some US states rolling back measures to reopen the economy, we cannot rule out more downside in manufacturing. In addition, support from USMCA and rising tensions between China and the US might take some time to materialize as uncertainty dampens its overall positive impact. On the contrary, massive economic stimulus measures in the US will probably help external demand, therefore acting as a significant driver later in the year.

On the non-manufacturing sector, we believe it will take even longer to see a significant recovery, as domestic demand will probably remain subdued given the deterioration in employment conditions as well as increased uncertainty. Moreover, the evolution of the pandemic domestically has still considerable risks associated to it. In this context, we believe that, until we see more decisive signs of a recovery, or uncertainty regarding the virus starts to decrease, we will not gather enough momentum both on business and consumer confidence to support a more robust rebound. Therefore, we still expect a considerable contraction in annual terms in 3Q20 GDP, with more signs of a better performance until the last quarter of the year.

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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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