

IMEF's PMI surveys – Rebound in September, with a strong surprise in the domestic sector

- **IMEF Manufacturing PMI (September, sa): 46.4pts; Banorte: 48.0pts; consensus: 47.0pts; previous: 45.3pts**
- **IMEF Non-manufacturing PMI (September, sa): 49.3pts; Banorte: 46.9pts; consensus: 47.0pts; previous: 46.7pts**
- **Although both indicators rose, in our opinion the main surprise was the magnitude of the rise in the non-manufacturing indicator, which would point to a strong domestic rebound. The recovery was broad, with ‘new orders’ and ‘production’ leading gains**
- **The manufacturing indicator was also favorable, although not as astounding factoring in the relative strength of external demand. ‘production’ and ‘deliveries’ outperformed, but ‘new orders’ fell**
- **We maintain our view that external demand will be the main driver for the recovery –mainly benefiting manufacturing–. Nevertheless, the better performance in non-manufacturing suggests the possibility of a broader-than-expected recovery**

IMEF's PMI's bounce back in September after retracing in the previous month. The manufacturing indicator stood at 46.4pts, lower than consensus (47.0pts) and our estimate (48.0pts). This represents a 1.0pts increase relative to August, which was revised to the upside, to 45.3pts (previous: 45.0pts). Meanwhile, the non-manufacturing indicator stood at 49.3pts, also stronger than our estimate (46.9pts), which virtually matched the market (47.0pts). This implied a sizable 2.6pts improvement relative to the previous month's revised data –at 46.7pts from 46.1pts originally–. In our view, results in the latter were even more surprising, considering other signals about a more muted recovery in domestic-facing sectors. On the contrary, manufacturing was more broadly aligned with our view, driven by external demand strength, especially in the US. Despite the improvement, both indicators remain below the 50pts threshold, suggesting that despite sequential improvements, figures will probably stay weak.

Manufacturing improves modestly. Despite increasing, the result was modest considering both the period's advance and the revision higher of August figures. Nonetheless, we should mention that performance was stronger than in the US, with the manufacturing PMI up marginally in the same period. The rebound was mainly driven by ‘deliveries’, up by 2.2pts –the only at the expansion threshold, followed by ‘production’ (+1.1pts) and ‘employment’ (+1.1pts). We consider that the improvement in the last two are important as they could be anticipating good dynamism in September. Nevertheless, ‘new orders’ declined 0.3pts, which points to some limits to the upside in the short-term after its recent strong rebound. Finally, ‘inventories’ lagged at the margin, falling 1.7pts.

October 1, 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 manufacturing indicator

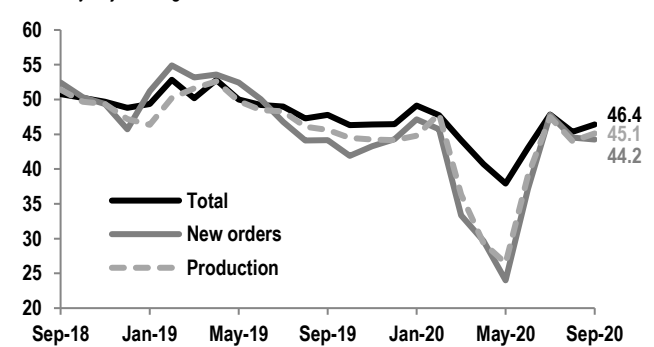
Seasonally adjusted figures

	Sep-20	Aug-20	Difference
Manufacturing	46.4	45.3	1.0
New orders	44.2	44.5	-0.3
Production	45.1	44.0	1.1
Employment	46.2	45.1	1.1
Deliveries	50.0	47.8	2.2
Inventories	45.0	46.7	-1.7

Source: IMEF

IMEF's PMI manufacturing indicator

Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator picked up strongly. Overall performance was much stronger than the other sector, higher across the board and with an upward revision for the previous month. The rise was led by the 5.0pts increase in ‘new orders’, with ‘production’ as second best at +3.0pts. We believe this is very relevant, suggesting that domestic demand is rebounding faster than what we had anticipated. Nevertheless, we need further data and to stay vigilant to see if this is materializing. Finally, ‘employment’ (+2.4pts) and ‘deliveries’ (+0.6pts), were also better, with the latter being the only above 50pts.

IMEF's non-manufacturing indicator

Seasonally adjusted figures

	Sep-20	Aug-20	Difference
Non-manufacturing	49.3	46.7	2.6
New orders	49.9	44.9	5.0
Production	48.6	45.7	3.0
Employment	46.4	44.0	2.4
Deliveries	52.1	51.5	0.6

Source: IMEF

Positive to mixed signs for the end of 3Q20. Today’s results suggest stronger activity at the end of the quarter, continuing with the recovery after a bump in August. Despite upward revisions, we stay cautious about the economy in said month, believing that the pace of growth likely slowed down. We maintain our call of an 8.4% q/q expansion in GDP in 3Q20 after plummeting 17.1% in the previous quarter.

By sectors, hard data suggests manufacturing kept growing, with [August's trade balance](#) still exhibiting sequential gains, especially in ‘other manufacturing’, although autos were barely up. This is positive considering that some stimulus provisions within the CARES Act in the US expired in July. However, today’s ISM manufacturing in the US fell slightly, albeit remaining in expansion. Therefore, these indicators point towards some deceleration in growth after rebounding strongly in recent months. Moreover, ‘new orders’ provide mixed signals for our country going forward, with this subcomponent lower although with ‘export orders’ inching higher. This is important considering that the possibility of an additional stimulus package has dwindled, especially with the elections only a month away, which could be inserting some downside risks.

In services, signals remain mixed. On the positive side, epidemiological conditions keep improving, especially favorable for key sectors that rely more on social interactions given that it is a precondition for restrictions to loosen further. We believe this is likely the main driver behind the rebound flagged by today's results in non-manufacturing. According to the latest 'traffic-light' indicator, 15 states are at 'orange', 16 'yellow' and one in 'green', the latter being Campeche. Nevertheless, states with relevant metropolitan hubs such as Mexico City, State of Mexico, Nuevo León and Jalisco remain in 'orange'. If these states continue to lag, conditions for a stronger rebound will be more challenging ahead. Despite of the latter, some natural fatigue over the pandemic might also be favorable for the economy in the short term. In addition, [improvements on employment](#) could start having a more favorable effect, as gains –both in the formal and informal sectors– have been persistent since May, although still far off pre-pandemic levels. On the contrary, hard data keeps suggesting weakness in consumption and investment. We believe these remain affected by persistent uncertainty, making economic agents cautious about big outlays.

All in all, we still expect the recovery to be driven by external demand, first benefiting sectors such as manufacturing, transportation and other external-facing services. The domestic component might be weaker, although today's report was significantly better. We should also factor-in that accumulated gains in the former could have a wider positive impact in the latter. Given today's results and despite latent concerns about the pandemic, we believe risks to our full-year estimate of a 9.8% y/y GDP contraction may be skewing slightly to the upside. This includes our assumption that additional restrictions would be more modest and focalized if new cases accelerate –particularly lockdowns–, as well as the latest economic data that has been slightly better than what we had anticipated.

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.

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.

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.
Research and Strategy

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

Economic Research and Financial Market Strategy

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

Economic Research

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

Market Strategy

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

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

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
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
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

Corporate Debt

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

Economic Studies

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

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
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 - 1002
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) 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
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) 5268 - 9004
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) 5004 - 1454