

IMEF's PMI surveys – Both sectors in contraction territory in November

- **IMEF Manufacturing PMI (November, sa): 48.5pts; Banorte: 48.6pts; consensus: 50.7pts; previous: 49.6pts**
- **IMEF Non-manufacturing PMI (November, sa): 49.5pts; Banorte: 48.4pts; consensus: 48.4pts; previous: 48.0pts**
- **The decline in the manufacturing sector was driven by weakness in ‘new orders’, ‘inventories’ and ‘production’. In our opinion this suggests some impact from renewed social-distancing measures, as well as railway blockades**
- **Meanwhile, the non-manufacturing indicator rose sharply, pushed by a broad recovery, led by ‘production’ and ‘new orders’ which we believe is mainly associated to favorable effects from *El Buen Fin***
- **We believe these results confirm some of our concerns that activity lost some dynamism towards the end of the year. Nevertheless, given some distortions in the data, we are still waiting for more information**

IMEF's PMI's are once again mixed in November. The manufacturing indicator stood at 48.5pts, lower than consensus but practically in line with our 48.6pts estimate. This represents a 1.1pts decrease relative to October, which was revised lower, to 49.6pts (previous: 50.1pts). Meanwhile, the non-manufacturing indicator stood at 49.5pts, higher than our estimate and consensus at 48.4pts. This implies a 1.5pts expansion relative to the previous month's revised data –at 48.0pts from 47.7pts originally–. Overall, results were mostly in line with our expectations. We believe that the period started to show an impact from the deterioration in epidemiological conditions, which was evident in the manufacturing index. Nevertheless, the non-manufacturing sector was much better, with renewed activity from *El Buen Fin* (Mexico's Black Friday) driving up the figure. Despite of this, both indicators remain below the 50pts threshold, suggesting weakness in activity prevails.

Manufacturing shows a modest decline. We believe there are several factors driving the headline figure down, including: (1) Some payback after last month's considerable increase; (2) distortions on shipments due to railway blockades in Michoacán; and (3) the deterioration in epidemiological conditions, as previously mentioned. In addition, dynamism in external demand also seems to have taken a hit, albeit more modestly, with the ISM manufacturing declining to 57.5pts (previous: 59.3pts). Within the report, ‘employment’ and ‘new orders’ were some of the most impacted, possibly suggesting a further deceleration going forward. Performance within subcomponents was consistent with the latter, with ‘new orders’ (-3.1pts), ‘inventories’ (-1.9pts), and ‘production’ (-1.8pts) taking the brunt of the decline. However, we also highlight the modest 1.3pts decline in ‘employment’, but only after a 2.9pts increase in the previous month, fact that was reflected in the [latest employment report](#). Lastly, and somewhat surprising, ‘deliveries’ rose by 1.3pts, being the only component above the expansion threshold.

December 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*



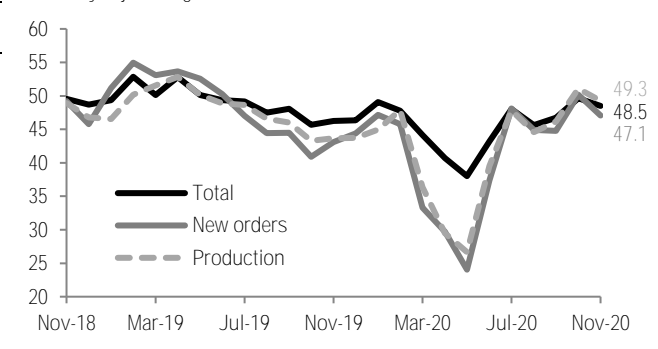
Document for distribution among the general public

IMEF's manufacturing indicator
Seasonally adjusted figures

	Nov-20	Oct-20	Difference
Manufacturing	48.5	49.6	-1.1
New orders	47.1	50.2	-3.1
Production	49.3	51.1	-1.8
Employment	48.5	49.7	-1.3
Deliveries	51.5	50.2	1.3
Inventories	44.0	45.9	-1.9

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator bounces back. Despite mostly negative signals for activity, this component posted a relevant 1.5pts increase, just 0.5pts shy from the expansion threshold. In our view, and as previewed earlier, the main driver for the sector was related to *El Buen Fin* promotions. In this context, preliminary results suggest that sales outperformed levels seen in the previous year, which would be very positive considering the still weak point the economy is in. Nevertheless, we should exercise some concern, considering the discount period was expanded, as well as the inclusion of other categories that were not accounted for in the program previously. Inside, all four subcomponents were better, with ‘production’ –which in this case could be related to sales– leading gains at +2.2pts, followed closely by ‘new orders’ (+1.8pts) and ‘employment’ (+1.4pts). Finally, ‘deliveries’ were more muted (+0.1pts), albeit also being the only sector above 50pts.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Nov-20	Oct-20	Difference
Non-manufacturing	49.5	48.0	1.5
New orders	48.6	46.9	1.8
Production	49.4	47.2	2.2
Employment	47.0	45.6	1.4
Deliveries	52.3	52.2	0.1

Source: IMEF

Signals of a slowdown prevailing in 4Q20. We believe today’s results are still consistent with signs of a deceleration in the pace of the recovery. This would be broadly consistent with the deterioration in epidemiological conditions, mainly new cases, which have shown an upward trend since early October. Considering this, some states have reintroduced stricter social-distancing measures. For example, Mexico City imposed a tighter curfew on gyms, cinemas, restaurants and other non-essential stores on November 23rd. We have seen this type of actions extend to other states. This would be detrimental for services, especially recreation, which have been among the most impacted by the pandemic. In commerce, the upward boost from *El Buen Fin* might fade away relatively fast, with the possibility of some payback in December, as consumers might have brought forward spending. Nevertheless, it is still too soon to confirm this, probably having to wait until IGAE or retail sales for the December. We expect sectors more dependent on social interactions, as well as those tourism-related, to remain a drag until a vaccine is widely available.

Turning to manufacturing, we might be starting to see some signals of the lack of fiscal stimulus in the US, as portrayed by that country's ISM manufacturing. This is slightly concerning as a package will probably wait at least until the new administration takes office, on January 20th. There is also the possibility of further delays, with two races on hold for the final composition of the Senate to be known. Turning to the domestic factors, railway blockades in Michoacán were finally lifted yesterday, which should help normalize the flow of goods in the Lázaro Cárdenas port. In turn, this could help ease some backlogs in imports and exports. Moreover, we will be waiting for updates on the epidemiological 'traffic-light' indicator, expected on December 6th. This will be very relevant, considering that there is a possibility of more states going back to 'orange' or 'red'. Despite positive news regarding a vaccine, we believe current limits on personnel and other restrictions will limit activity from showing a more vigorous performance.

All in all, we think these results are still consistent with our forecast of a 0.5% q/q expansion in 4Q20 (-7.2% y/y). Contrary to today's report, strength will once again be concentrated in manufacturing –albeit to a lesser extent than in 3Q20–. Moreover, the outlook for services is filled with more unknowns, although in our view with more downside risks, especially as domestic demand remains muted. Considering this, we maintain our forecast of a 9.0% y/y contraction in full-year 2020, followed by a 4.1% expansion in 2021.

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

Della 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