

IMEF's PMI surveys – Diverging at the start of the year

- **IMEF Manufacturing PMI (January, sa): 50.2pts; Banorte: 50.4pts; previous: 48.8pts**
- **IMEF Non-manufacturing PMI (January, sa): 47.6pts; Banorte: 47.6pts; previous: 48.0pts**
- **The increase in manufacturing was broad, only with the ‘deliveries’ component declining and in expansion for the first time since May 2019. This sector was probably supported by strength in the US**
- **Meanwhile, the non-manufacturing inched lower, at a minimum since last August. Moreover, the ‘production’ and ‘new orders’ components exhibited the highest setbacks**
- **These results are consistent with a slow start of the year for the domestic economy, which is likely to remain relatively more affected by worse pandemic dynamics despite the beginning of vaccinations**

IMEF's PMI's diverging at the start of the year. The manufacturing indicator reached 50.2pts, a strong result which was slightly below our estimate. This represents a 1.4pts increase relative to December and is the first print in expansion –above the threshold of 50.0pts– since May 2019. Meanwhile, the non-manufacturing indicator stood at 47.6pts, matching our forecast. In addition, it stands at its lowest level since last August after two consecutive months down. On the other hand, the previous month's figure was revised marginally higher in the former and lower in the latter, widening their differences in performance a little bit further. As expected, we think the period shows more clearly the effect from worse epidemiological conditions, with industry again more resilient as this has led to less disruptions relative to services, which are more dependent on social interactions.

Manufacturing gathers pace. In our view, the result was mainly supported by a strong performance in the US, as suggested by Markit's PMI manufacturing. This indicator stood at 59.2pts, highest in the history of the high and with the sharpest increase in operating conditions. Export orders, which are particularly relevant for our country, rose at the fastest pace since September 2014. This was tempered at the margin by the ISM manufacturing gauge, which declined to 58.7pts from 60.5pts previously, albeit also quite strong. In the latter, some companies reported limits to growth potential due to short-term shutdowns to sanitize facilities, absenteeism and difficulties in returning and hiring workers. Within the report, inventories showed the biggest jump (+8.9pts), which is an inconclusive signal. Nonetheless, it was followed by ‘new orders’ and ‘production’, which picked up by 2.1pts and 1.2pts, respectively. Importantly, all three are in expansion territory. In contrast, ‘employment’ was more modest, up only by 0.5pts, while ‘deliveries’ fell 2.1pts. We think the latter may be related to the reestablishment of railway blockades in Michoacán at the beginning of the month. Last year, these reportedly affected the flow of goods of several industries.

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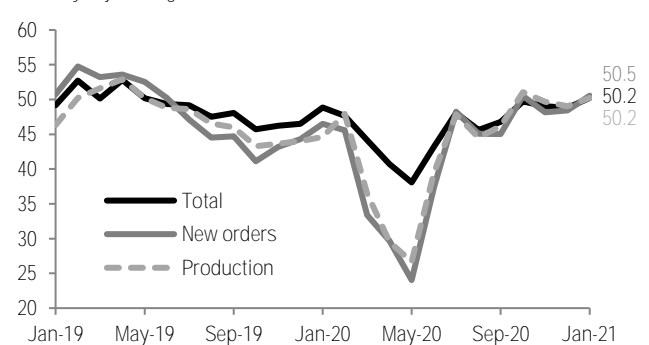
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IMEF's manufacturing indicator
Seasonally adjusted figures

	Jan-21	Dec-20	Difference
Manufacturing	50.2	48.8	1.4
New orders	50.5	48.4	2.1
Production	50.2	49.0	1.2
Employment	49.6	49.2	0.5
Deliveries	47.5	49.6	-2.1
Inventories	51.3	42.5	8.9

Source: IMEF

IMEF's PMI manufacturing indicator
Seasonally adjusted figures



Source: Banorte, IMEF

The non-manufacturing indicator declines for a second consecutive month.

This is consistent with the deterioration in epidemiological conditions, with the number of new daily cases trending up most of the period. At the end of January, 10 states were ‘red’ in the traffic light indicator, representing around 54.3% of national GDP. However, we also note some efforts to restart some activities, including restaurants which could operate in open spaces since the middle of the month in the State of Mexico and Mexico City. Nevertheless, it is our take that the impact at the beginning of the month was much larger, not compensating for the latter. In this context, ‘new orders’ and ‘production’ were the most impacted, down 1.8pts and 1.1pts, respectively. Meanwhile, ‘employment’ decreased 1.0pts, probably also reflecting lower activity while possibly skewed down by the 15% increase in the minimum wage, which could have driven employment down. Cnd contrasting with signs from manufacturing, ‘deliveries’ were actually higher by 3.2pts, possibly aided by some freeing-up of congestion in some sectors, which would be related to the decline in ‘new orders’ and overall demand, making them timelier.

IMEF's non-manufacturing indicator
Seasonally adjusted figures

	Jan-21	Dec-20	Difference
Non-manufacturing	47.6	48.0	-0.4
New orders	46.0	47.8	-1.8
Production	46.5	47.6	-1.1
Employment	45.4	46.3	-1.0
Deliveries	53.1	49.8	3.2

Source: IMEF

A slow start in 2021. The year picked off where 2020 left, with concerns about the impact on activity of a new, and more severe, wave of COVID-19 cases. In this sense, the current traffic light indicator shows now 13 states in ‘red’, with Colima, Nayarit, Puebla and San Luis Potosí worsening, while Coahuila improved to ‘orange’. In this context, the total number of states in ‘red’ represents about 58.4% of GDP. As evidenced both in December and in today’s report, this seems to be having a more significant effect on services, also consistent with implied data within [4Q20 GDP](#).

Authorities are aware of this, taking some targeted actions to try to soften the blow to the economy. Among them, the State of Mexico announced that starting February 1st, shopping malls can open at 20% capacity and only Monday through Friday, with restaurants also able to accommodate 30% capacity indoors. A similar measure is being explored in Mexico City, which could start on February 8th. Meanwhile, latest signals from mobility indicators suggest an extended move lower, consistent with greater concerns about the risks of contagion. Despite of this, we believe services will remain muted until we see more definite signs of an improvement in epidemiological conditions, allowing for a more vigorous restart of activity.

Turning to manufacturing, signs are more positive given continued strength from abroad, as outlined above. However, one of the latest executive actions signed by President Biden might result in dampened local optimism. Specifically, it orders all federal dependencies to favor purchases of American-made goods. We think this could have a more sizable impact in the medium- and long-term (without ruling out legal measures under USMCA), with short-term dynamism continuing. On the other hand, the possibility of additional tensions between the US and China –with some representatives stating that they will continue pushing the Asian nation on topics related to trade, innovation, human rights and other geopolitical matters– could benefit our country as businesses continue to implement *nearshoring* strategies. In Mexico, some of the most relevant industries continue to be catalogued as essential, which should help avoid a double-dip decline as in the period from February to May. However, we will keep monitoring domestic demand carefully, as conditions for consumption and investment remain weak.

All in all, we maintain our forecast that GDP could fall 0.3% q/q in 1Q21, considering that services –with a share of around 61% of total activity– sharply outweighs manufacturing –close to 16%–. Another relevant factor that would explain this is a more difficult base effect, remembering that the economy was better than expected in 4Q20. Lastly, we remain relatively optimistic for the medium-term, reiterating our call of a full-year expansion at 4.1%.

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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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