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IHS MARKIT MEXICO MANUFACTURING PMI™

Marginal increases in sales and input stocks push PMI into growth territory

KEY FINDINGS

PMI rises from 49.8 to 50.1 in April

New business growth reinstated...

...but production and employment decline further

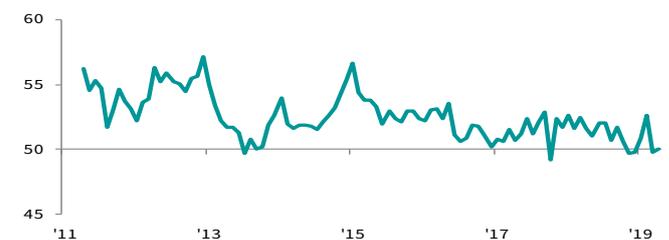
Operating conditions in the Mexican manufacturing industry improved marginally at the start of the second quarter, as growth of new business and stocks of purchases counteracted sustained decreases in output and employment. At the same time, international sales contracted for the first time since February 2018. Input cost inflation ticked higher, while there was a renewed rise in factory gate charges. On both fronts, however, rates of inflation were weak in the context of historical data.

The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ posted above the no-change mark of 50.0 in April. Rising from 49.8 in March to 50.1, the latest reading was indicative of a marginal improvement in the health of the sector. Strength came from two of the five sub-components of the headline index, new orders and stocks of purchases, while suppliers' delivery times lengthened to a greater extent.

Following stagnation in March, sales increased at the start of the second quarter. Companies that noted growth commented on the award of tenders and the securing of new work from both new as well as existing clients. However, the overall pace of expansion in factory orders was marginal, curtailed by subdued demand conditions, low investment and challenging public policies.

There was no support from external markets to total sales, as indicated by the first contraction in new orders from abroad since February 2018.

Manufacturing PMI
sa, >50 = improvement since previous month



As was the case in March, production decreased during April. Survey participants linked the downturn to restrained demand, shortages of key inputs and inventory-optimisation efforts. That said, output declined only marginally and at a softer pace than in the previous month.

Outstanding workloads rose in April, with panellists linking capacity pressures to staff resignations, longer lead times, border closures and quotations pending approvals. The accumulation in backlogs was the first since last September.

Job shedding was extended to April, with a number of companies noting the non-renewal of temporary contracts, retirements and downsizing efforts. Employment decreased at a marginal rate that was nonetheless the fastest in almost five years.

Meanwhile, pre- and post-production inventories increased at the start of the second quarter, albeit marginally in both cases. Input purchasing declined for the second month in a row, although only slightly.

On the price front, there was a further increase in cost burdens and a renewed rise in factory gate charges. On both fronts, however, rates of inflation were below their respective long-run averages.

Positive sentiment was sustained in April, with product diversification, opportunities to tender and efforts to enter new foreign markets among the reasons cited for optimism. Also, the level of confidence improved from March.

COMMENT

Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

“Manufacturing sector conditions in Mexico remained challenging in April, as evidenced by further declines in production, input purchasing and employment. The only positive takeaways from the latest set of PMI results came from the new orders and future expectations indices.

“Sales grew at the start of the second quarter, after failing to expand in March. The rise was only marginal, however, and centred on the domestic market. Parallel to this, new work from overseas contracted for the first time in over a year. Companies indicated efforts to increase their international presence, which was one of the factors underpinning optimism regarding output in the coming 12-month period.

“Subdued demand conditions in recent months continued to weigh on firms' pricing power, with factory gate charges broadly unchanged in spite of a pick-up in input cost inflation.”

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Methodology

The IHS Markit Mexico Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

April 2019 data were collected 10-18 April 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.