

IHS MARKIT MEXICO MANUFACTURING PMI™

Contraction in manufacturing output eases amid marginal sales growth

KEY FINDINGS

Slowest fall in production in five months

Marginal rise in new work leads to job creation

Input cost inflation softens to survey low

Operating conditions in the Mexican manufacturing industry improved in October, largely due to rising sales, stocks of purchases and employment. Business confidence strengthened to a five-month high, but production contracted for the fifth consecutive month. On the price front, lower energy and raw material costs coupled with supplier discounts helped drag down input price inflation to a survey-record low. Subsequently, selling charges were left unchanged.

Registering 50.4 in October, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ was in expansion territory for the first time since April. The headline figure rose from 49.1 in September to its highest mark since February, but was indicative of only a marginal strengthening in the health of the sector.

One of the factors contributing to the above-50.0 PMI reading was an increase in new order flows. Some companies reported new project wins, although others noted weak demand for their goods. As a result, the overall pace of expansion was marginal.

While total new work rose, international sales broadly stabilised. There were a few mentions of higher demand from Brazil and the US, but some companies indicated that weak purchasing power among external consumers and high stock levels at vendors curbed exports.

Goods producers lifted employment for the first time in eight months, with some firms indicating the hiring of temporary workers. The rate of job creation was only slight, however.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

October data showed a fifth consecutive decline in Mexican manufacturing production, though the pace of contraction was marginal and the weakest over this period. Where output fell, there were mentions of subdued sales, weak underlying demand and machinery issues.

Manufacturers continued to limit input purchasing, with the latest monthly decline stretching the current period of contraction to eight months. Anecdotal evidence highlighted overstock adjustment and weak demand as the main factors curtailing quantities of purchases.

Amid reports of discounts offered by suppliers, lower prices for energy and some raw materials, input cost inflation moderated to a survey-record low in October. As a result, selling prices stabilised.

Trends for stocks were similar in October, with holdings of both inputs and finished goods increasing. The latter expanded at the joint-fastest pace in nearly a year. Inventories of raw materials and semi-finished items rose for the first time in three months, albeit slightly.

Business confidence improved on the back of predictions of sales growth, better economic conditions and the launch of new product lines. Despite rising to a five-month high in October, the level of positive sentiment remained subdued in the context of historical survey data.

COMMENT

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

"Challenging economic conditions, subdued business confidence and weak demand resulted in another contraction in Mexican manufacturing production at the start of the final quarter of 2019. In addition to anaemic domestic sales, export orders were unchanged from September.

"The stuttering performance of the manufacturing industry seen throughout the second half of the year helped to curb inflationary pressures, with October PMI data highlighting the weakest rate of input cost inflation since the survey started in April 2011. This enabled goods producers to leave their fees unchanged, which may help boost sales in the near term whilst enabling the central bank to continue its easing cycle."

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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.

October 2019 data were collected 11-23 October 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.