IHS MARKIT
MEXICO MANUFACTURING PMI™

PMI at joint-survey low as factory orders and output dip back into contraction

KEY FINDINGS
Renewed deterioration in business conditions
Sales slide at quickest rate in survey history...
...causing reductions in production and input buying

Operating conditions in Mexico’s manufacturing industry remained challenging in June, with the headline PMI sliding to a joint-survey low. Following marginal increases in May, total new business, exports and output all contracted. Also, there was a further cutback to input buying, one that was the fastest since data collection started in April 2011. Despite an uptick in input cost inflation, firms left selling prices broadly unchanged amid attempts to secure new work. Concurrently, business confidence waned.

The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ declined from 50.0 in May to 49.2 in June. The latest figure was the joint-lowest since the inception of the survey in April 2011, on a par with October 2017, and dragged the quarterly average below the 50.0 threshold for the first time in over eight years.

New business inflows declined in June, ending a two-month sequence of expansion. Although moderate, the pace of contraction was the quickest in the survey history. Panel members linked the fall to weak demand from domestic and external customers as well as a lack of investment and subdued client confidence.

There was a reduction in new export orders at the end of the second quarter, after growth was reinstated in May. According to panellists, tariffs and unfavourable exchange rates hindered international sales.

Subsequently, Mexican manufacturers scaled back their production volumes in June, reversing the marginal increase noted in May. Weak sales, low investment, subdued demand conditions, political issues and sufficient stock levels were associated with the latest reduction in output.

After falling for three months in a row, employment was unchanged in June. At the same time, companies further reduced their input buying. The contraction in quantities of purchases was the most marked in the near eight-and-a-half years of data collection.

As a result, input stocks decreased for the second straight month at the end of the second quarter. Some manufacturers associated the fall with cashflow difficulties.

Trade tensions, weak investment and political uncertainty restricted business sentiment in June. The degree of optimism waned to the second-lowest in the series history. Still, panel members expect product diversification and efficiency gains to underpin output growth in the coming 12 months.

Firms’ cost burdens continued to rise in June, with chemicals, foodstuff, metals, packaging, plastics and rubber reportedly up in price. In part, the increases were linked to exchange rate fluctuations and tariffs. Companies, however, refrained from hiking their own charges amid efforts to stimulate demand.
Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

"PMI data for June showed a worsening performance of the Mexican manufacturing sector, rounding off the weakest quarter since the survey started in April 2011.

"Following brief and only marginal increases in total new orders, export sales and production in May, there were renewed contractions in June.

"Companies mostly linked the downturn to subdued client confidence, policy uncertainty, a lack of investment and trade tensions. Even with firms absorbing additional rises in input costs and leaving their fees unchanged, demand from domestic and international markets contracted.

"The only positive takeout from the latest figures came from the labour market, with employment stabilising following three consecutive months of reduction.

"However, with business sentiment fading to one of the lowest levels seen in the survey history and demand for goods failing to show any vigour, we may see renewed job shedding in the near-term."