

IHS MARKIT MEXICO MANUFACTURING PMI™

Weaker expansion in new work curbs growth of output and employment

KEY FINDINGS

Joint-weakest upturn in sales in a year

Marginal and softer increase in factory output

Employment growth slowest in current period of job creation

Although the health of the Mexican manufacturing industry continued to improve in October, most PMI indicators echoed a less positive tone than in September. Production, new orders, exports, input purchasing and employment all expanded at softer rates, while business confidence slipped to a 21-month low.

The headline IHS Markit Mexico Manufacturing PMI™ fell from 51.7 at the end of the third quarter to 50.7 in October. The latest reading was indicative of a further strengthening in business conditions, though one that was the joint-slowest in the current 12-month period of growth.

Factory output increased amid new product launches and greater sales, but growth was curbed by machinery repairs and sufficient stock levels at some plants. As a result, the overall upturn in production was marginal and slower than that recorded in September.

October data pointed to subdued growth of order books at Mexican goods producers. The increase in new business was the joint-weakest for a year. New export sales likewise expanded at a slower pace, albeit one that remained marked and above the long-run series average.

In line with efforts to rebuild input stocks, manufacturers purchased additional quantities of raw materials and semi-finished items in October. The pace of expansion was modest and only fractionally weaker than in September. Subsequently, stocks of purchases returned to growth territory.

Survey data highlighted softer increases in both input and

Manufacturing PMI
sa, >50 = improvement since previous month



output prices, with rates of inflation at 13- and 48-month lows respectively. Panellists indicated that cost burdens rose due to peso depreciation (versus US dollar), low stock levels at vendors and greater tariffs, but that successful negotiations with suppliers restricted the extent of the overall increase. Selling prices were lifted amid the pass-through of rising costs, but charge inflation was curtailed by efforts to secure new work at some firms.

Employment rose in October, which panel members attributed to product developments. However, the rate of job creation eased to the weakest in one year as some respondents did not replace voluntary leavers and retirees.

Subdued sales growth combined with job creation contributed to a decline in outstanding business, the first in three months. Meanwhile, holdings of manufactured goods increased at the quickest pace since January, whereas average lead times lengthened to the least extent since January.

Goods producers were optimistic towards the year-ahead outlook for production, with sentiment underpinned by planned expansions into new markets, product diversification and predictions of greater sales. However, overall confidence was at a 21-month low as some companies displayed worries about economic uncertainty.

COMMENT

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

"The manufacturing industry showed signs of cooling in October, as lacklustre demand and an uncertain economic outlook hampered production, hiring and input purchasing.

"Exports fared better than total new work as the relatively weak peso continued to make Mexican goods more attractive, price-wise, in international markets.

"Although the burden of cost pressures moderated, purchasing activity was held back by the faltering performance of supply chains as scarcity of some critical raw materials and delays in ports were reported.

"Uncertainty also remains a break on growth and the upcoming months will be a waiting game for goods producers longing for more stable conditions."

CONTACT

IHS Markit

Pollyanna De Lima
Principal Economist
T: +44-1491-461-075
pollyanna.delima@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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 2018 data were collected 12-23 October 2018.

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