Fresh decline in production amid coronavirus outbreak

**KEY FINDINGS**

- Fastest output contraction for three months
- New orders fall at sharpest rate in survey history
- Record low for business sentiment

Mexican manufacturers recorded a fresh decline in output during March as demand tumbled amid the ongoing coronavirus outbreak. New orders fell at the quickest pace since data collection began in April 2011, prompting firms to accelerate staff cuts and reduce purchasing activity. Meanwhile, firms were pessimistic towards the 12-month business outlook for the first time on record.

Falling from 50.3 in February to 46.9 in March, the seasonally adjusted IHS Markit Mexico Manufacturing Output Index pointed to a renewed contraction in production during the latest survey period. Moreover, the rate of decline was the sharpest for three months as the coronavirus pandemic hampered demand.

Such a trend was evidenced by the quickest fall in new business across the Mexican manufacturing sector since the survey's inception nearly nine years ago. Many panellists associated fewer new orders with the covid-19 outbreak. The decline in total new orders was partially driven by a reduction in new export business during March. The result represented a return to contraction territory following February's marginal expansion. However, the latest decline was only slight overall.

Softer demand conditions saw firms turn pessimistic towards the 12-month business outlook in March, with many citing expectations for a prolonged economic downturn. The result marked the first bout of negative sentiment since the series began in April 2012.

Amid coronavirus-related disruptions, suppliers' delivery times lengthened sharply at the end of the first quarter. In fact, vendor performance deteriorated to the greatest extent since January 2013. This result helped support a PMI™ figure of 47.9, despite significantly lower readings for the index's principal components of new orders (30%) and output (25%) (the Suppliers' Delivery Times Index is inverted in the PMI calculation).

Meanwhile, manufacturers in Mexico continued to cut staff numbers, with firms often citing lower production requirements. Though marginal overall, the rate of reduction was the quickest for three months.

Similarly, in response to weaker inflows of new business, there was a renewed decline in purchasing activity during March.

On the price front, cost burdens faced by Mexican manufacturers continued to rise, extending the current run of inflation seen since the survey’s inception. The latest increase was slightly faster than that recorded in February but moderate overall. Some panellists linked higher prices to product shortages.

Despite rising input costs, firms opted to cut their average output charges in March. The rate of reduction was only fractional overall but extended the current run of deflation to five months. Some survey respondents commented that price drops were intended to boost sales.
COMMENT

Commenting on the PMI data, Eliot Kerr, Economist at IHS Markit said:

“The Covid-19 pandemic has severely disrupted the global economy in March and the picture was no different in the Mexican manufacturing sector. Marked declines in both production and new orders were accompanied by a sharp deterioration in vendor performance, making business conditions extremely difficult.

“The decline in new business was particularly prominent and gave evidence that the virus has driven a collapse in global demand.”

“The fall in Mexican factory production in March, though marked, was disproportionate to that seen in new orders and suggests we will see further output reduction as supply is pared back to match the dire demand environment.”

CONTACT

IHS Markit

Eliot Kerr
Economist
T: +44-203-159-3381
eliot.kerr@ihsmarkit.com

Katherine Smith
Public Relations
T: +1-781-301-9311
katherine.smith@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.

March 2020 data were collected 12-23 March 2020.

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. ihsmarkit.com/products/pmi.html.

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