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IHS MARKIT MEXICO MANUFACTURING PMI™

Manufacturing production contracts at survey-record pace

KEY FINDINGS

Subdued demand causes further reduction in output

Buying levels fall at joint-fastest rate in survey history

Job shedding stretches to September

September data highlighted ongoing manufacturing sector weakness in Mexico, with operating conditions deteriorating for the fourth consecutive month. Although order flows broadly stabilised, companies scaled down output to the greatest extent in the survey history. Employment declined, while the fall in input purchasing was the joint-quickest since data collection started in April 2011.

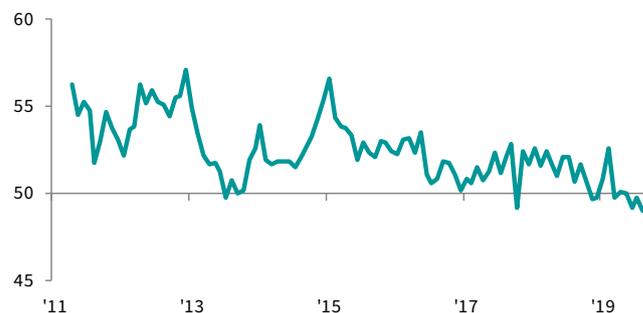
Meanwhile, taxation and peso weakness drove input cost inflation to a nine-month high, but firms reduced charges fractionally amid efforts to secure new work.

At 49.1 in September, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ was little-changed from August's survey-low reading of 49.0 and pointed to a fourth consecutive worsening of operating conditions across the sector.

Production decreased for the fourth straight month in September and at the quickest pace since the inception of the survey in April 2011. Panel members attributed the fall in output to tough economic conditions, subdued client confidence and weak demand.

Following three consecutive monthly declines in new business inflows, September saw a stabilisation in sales. Some companies reported higher new orders, which they linked to greater client numbers. Others noted that reduced plant capacity, sluggish economic conditions and weak demand led to a fall in order books.

Manufacturing PMI
sa, >50 = improvement since previous month



After increasing marginally in August, new export orders contracted during September. Downward revisions to sales projections among clients and weak demand from the US were among the main factors cited for the decline in international sales.

As has been the case since May, PMI data showed a lack of pressure on the capacity of manufacturers' operations. Outstanding orders declined only slightly, however, and at a slower pace than in August. Subsequently, job shedding continued.

Quantities of purchases decreased for the seventh month in a row, with the rate of reduction the joint-sharpest in the survey history. Manufacturers cited lower production needs and weak sales as the principal factors leading them to trim input buying. Subsequently, there was a further drop in holdings of raw materials and semi-finished items.

Input costs rose amid reports of peso depreciation, tariffs and taxation. The rate of inflation accelerated to a nine-month high. Concurrently, charges fell fractionally as firms sought to attract new business.

Despite strengthening to a four-month high, the level of business sentiment remained subdued by historical standards. Those companies that were optimistic mentioned upbeat projections for sales, exports, investment, advertising and new product launches, however.

COMMENT

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

"Mexico ended the third quarter of 2019 with its worst manufacturing performance in the eight-and-a-half-year survey history, owing to a record deterioration in business conditions in August and a broadly similar performance in September.

"Another month of weak order inflows kept production levels firmly in contraction, with the fall in output the fastest in the survey history. In response, manufacturers cut their staffing numbers again and further reduced purchasing activity. The downturn was often attributed to challenging economic conditions, weak demand and subdued client confidence.

"Meanwhile, prices charged were broadly stable as goods producers sought to stimulate demand by absorbing cost increases. Input cost inflation picked up to a nine-month high in September, largely due to peso weakness."

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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.

September 2019 data were collected 12-20 September 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.