Manufacturing sector conditions in Mexico went from bad to worse in December, with rates of contraction in output, new orders, exports and input buying accelerating to the fastest in the near nine-year survey history. In turn, business sentiment slipped to its lowest level on record whilst firms further trimmed headcounts.

Elsewhere, on the price front, cost inflationary pressures remained relatively muted. Input prices rose at a mild rate compared to its long-run average, while companies reduced their charges in efforts to stimulate demand.

Falling from 48.0 in November to 47.1 in December, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ pointed to the sharpest deterioration in business conditions since the inception of the survey in April 2011. The figure contributed to the lowest quarterly average on record (48.5).

Mexican goods producers indicated that weak client demand and a concerning economic landscape dragged sales down in December. The fall in factory orders was the sharpest since the survey started in early-2011.

As a result, companies restricted production at the year end. Not only did output fall for the seventh month in a row, but also to the greatest extent on record. Panel members commented on challenging market conditions, fewer government bids and subdued demand from domestic as well as international clients.

Indeed, new export orders contracted further, with the downturn the steepest in the survey history.

Business confidence also dipped to a series low, with many panellists concerned about a lack of investments, tough economic conditions, lingering uncertainty and troubles in the automotive industry.

Relatively downbeat growth projections led companies to trim their expenses again in December, with both input buying and employment falling over the month. The decline in quantities of purchases was sharp and the quickest on record, but the pace of job shedding moderated from November. Panel members that reported lower headcounts commented on downsizing, reduced working hours and the non-replacement of voluntary leavers.

Mexican goods producers were reluctant to hold excess stock at the year end. Post-production inventories decreased for the first time since March, albeit slightly. Input stocks fell sharply and at the fastest pace in the survey history.

Input costs rose only modestly, despite the rate of inflation accelerating to a three-month high. Anecdotal evidence pointed to higher prices for metals, chemicals and fuel, but reduced fees for textiles and petroleum products.

Subdued cost pressures, combined with efforts to boost sales, resulted in another monthly reduction in selling prices. The rate of discounting was, however, marginal.
COMMENT

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

“As was the case through most of the second half of 2019, PMI data for December pointed to difficult conditions in the Mexican manufacturing industry. Firms continued to suffer from a challenging economic landscape, weak domestic demand and an unfavourable trade climate.

“With rates of contraction in factory orders and output reaching new records, goods producers continued to trim headcounts and input buying at historically steep rates.

“So far, it’s difficult to see a light at the end of the tunnel and any meaningful rebound in 2020. In fact, businesses are at their least optimistic towards growth prospects in the series history, with many concerned about lingering uncertainty, a lack of investments and ongoing troubles in the automotive sector.”