PMI™ data for June indicated that the Mexican manufacturing industry continued to be negatively impacted by the COVID-19 pandemic, with another decline in new orders causing further reductions in production, employment and input buying. That said, in all cases rates of contraction softened from those registered in May. Moreover, firms were more upbeat towards the 12-month outlook for output, with the overall degree of optimism the strongest since January 2020.

Rising from 47.6 in May to 48.8 in June, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ pointed to the slowest deterioration in the health of the sector in 16 months. Moreover, the PMI averaged 48.3 in the latest three months, the highest figure since the opening quarter of 2020.

Although goods producers noted a further decline in new business inflows, the pace of contraction softened to the slowest in the current 16-month period of reduction and was slight overall. The fall reportedly stemmed from the COVID-19 crisis and business closures, but was curbed by improved demand for newly-launched products and new client wins among some firms.

Similarly, new export orders decreased for the sixteenth consecutive month at the end of the second quarter but at the softest pace since March 2020. The downturn was stymied by new business wins from the US and other nations where COVID-19 restrictions had started to be lifted, according to panellists.

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"The Mexican manufacturing industry remained in the red in June amid the COVID-19 crisis and local restrictions. Firms continued to signal lower sales, falling production and job shedding, but tentative signs of a recovery in demand curbed the respective rates of contraction. Most indices were below the critical 50.0 mark, despite rising from May.

"Two sub-indices were above the 50.0 threshold, input prices and business expectations. The former pointed to the second-fastest increase in cost burdens in just under three years as raw material scarcity, rising transportation costs and peso depreciation meant that businesses paid more for inputs. Companies remained reluctant to pass-through to their clients additional increases in input prices and again offered discounts for their goods.

"Business confidence improved for the third month running in June to the highest level since the start of 2020. Upbeat growth projections stemmed from hopes of greater vaccine and raw material availability. Firms also foresee an economic recovery and a pick-up in demand in the year ahead."
Manufacturing production decreased for the sixteenth month in a row, albeit at the weakest pace since March last year. Those survey participants that signalled lower output mentioned ongoing declines in sales, a lack of raw material availability and shutdowns.

Firms were more optimistic that output would increase over the course of the coming year, with the overall level of positive sentiment hitting a 17-month high. Confidence was underpinned by hopes of greater access to vaccines, improved raw material availability, sales growth and promotional activities.

June data pointed to another decline in manufacturing sector jobs, the seventeenth in successive months. That said, the pace of contraction softened from May and was only slight.

Manufacturers maintained a cautious approach towards input purchasing. However, buying levels declined at the slowest rate since March last year. Where a reduction was reported, panellists commented on difficulties sourcing raw materials, subdued sales and business closures.

Companies continued to signal supply-chain constraints in June, with average lead times lengthening sharply. Raw material shortages among vendors, difficulties in international shipping and the COVID-19 crisis were blamed for the latest delays.

Latest survey data highlighted an intensification of cost inflationary pressures at manufacturers. Average input prices rose at the second-fastest pace in 34 months, behind April.

Despite this, firms continued to lower their selling prices in June. The rate of discounting was nevertheless marginal and the slowest since March 2020.