Mexican manufacturers endured another tough month in December as the detrimental impact of the coronavirus disease 2019 (COVID-19) pandemic on the economy restricted demand, triggered job cuts and led to a further contraction in factory output. Amid reports of efforts to keep stocks to a minimum, there were declines in quantities of purchases as well as holdings of finished goods and raw materials. Subdued input demand coupled with business closures curbed input cost inflation, while selling prices were reduced again. Encouragingly, firms became optimistic towards growth prospects.

The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ fell from 43.7 in November to a three-month low of 42.4 in December. The latest figure was consistent with a sharp deterioration in the health of the sector, one that was stronger than any seen prior to the COVID-19 outbreak. For the last quarter of 2020, the PMI averaged 43.2, only slightly higher than 41.3 in the third quarter.

Factory orders decreased for the tenth month in a row and at the joint-fastest pace since September. Companies largely linked the fall in sales to strict COVID-19 restrictions, business closures and weak demand.

International sales decreased at a quicker pace in December. The latest fall was the tenth in successive months and the strongest since last June.

Sustained declines in sales, shutdowns and the COVID-19 pandemic caused another reduction in Mexican operating conditions worsen to greater extent in December

Reductions in output and employment accelerate

Joint-fastest fall in factory orders since September

Comment

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

“The Mexican manufacturing industry ended 2020 in a similar way it started the year, with a decline in sales causing output contraction. With domestic issues exacerbated by the pandemic, monthly rates of reduction in December for output, new orders and employment were all among the sharpest seen since data collection started in April 2011.

“There were some positive takeaways from the latest PMI survey results. After being pessimistic for two months in a row, firms became optimistic towards growth prospects amid expectations that the effect of the pandemic could subside. At IHS Markit, we forecast economic output to expand 3.7% in 2021 and an upward revision is likely should there be favourable negotiations between Mexico and the US once the new US administration takes over.

“Also, input cost inflation was curbed by subdued input demand, which enabled companies to discount their prices again in efforts to secure sales.”

continued...
manufacturing production during December. The fall was sharp and the fastest since last July.

Goods producers expect better times ahead, as indicated by renewed optimism towards the 12-month outlook for output. The overall level of confidence was modest, but ended a two-month period of pessimism.

Amid reports of subdued sales, lower production requirements and business closures, quantities of purchases decreased at the end of 2020. The fall in input buying was the tenth in consecutive months and sharp overall.

As a result, December saw another decline in pre-production inventories. The rate of stock depletion was sharp and the quickest in four months.

Holdings of finished goods likewise decreased at a sharp and accelerated pace, one that was the fastest since last June.

Employment fell in December, marking an 11-month sequence of job shedding. Moreover, the rate of reduction was sharp and the quickest since last August.

December data highlighted ongoing spare capacity among manufacturers as backlogs of work declined for the ninth straight month. The pace of depletion was sharp, despite easing from November.

Supply chains continued to be impacted by COVID-19. Panel members reported that material shortages and shutdowns led to delivery delays.

Input costs rose further, but the rate of inflation softened to a five-month low and was marginal.

On the other hand, selling prices were reduced again. The latest fall was the fourteenth in consecutive months and the rate of decline matched November’s marked pace.