

IHS MARKIT MEXICO MANUFACTURING PMI™

Survey-record contractions in input purchasing and employment

KEY FINDINGS

Job shedding accelerates to fastest in survey history

Third successive decline in input purchasing

Production and factory orders rise marginally

May data painted a mixed picture of the health of the Mexican manufacturing industry. On the bright side, new order growth was sustained and there were renewed increases in production and exports. That said, rates of expansion were marginal at best. At the same time, cashflow issues and subdued sales resulted in the fastest contractions in employment and input purchasing since data collection started in April 2011. Cost burdens and selling prices rose further, but at slower rates than their respective long-run averages.

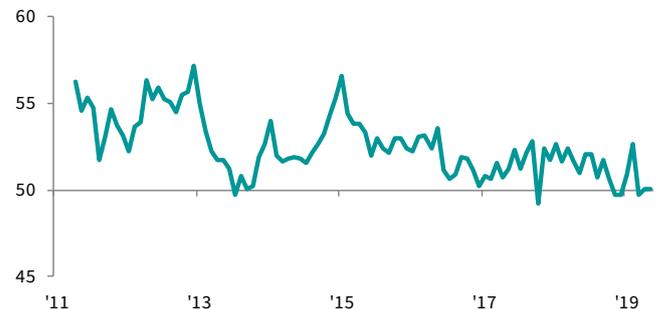
Operating conditions were unchanged in May, as signalled by the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ recording at the 50.0 no-change mark. This followed from a fractional strengthening in the health of the sector at the start of the second quarter, and compares with improvements through most of 2018.

Incoming new work increased for the second consecutive month in May, albeit marginally. There were some reports of higher sales, but a number of survey members commented on sufficient stock levels at clients, auto-sector weakness and subdued demand conditions.

International sales rose midway through the second quarter, with panellists reporting greater client numbers abroad and higher new orders from Central America. That said, the pace of growth was only slight.

Similarly, there was a marginal increase in manufacturing production, following contractions in each of the previous two months.

Manufacturing PMI
sa, >50 = improvement since previous month



Still, manufacturers lowered payroll numbers and input buying again in May. Rates of contraction were the quickest in the survey history, despite being modest. Anecdotal evidence pointed to cost-reduction initiatives amid cashflow issues and weak underlying demand.

Inventory trends differed in May. Pre-production stocks declined for the fourth time in the past six months, whereas holdings of finished goods increased for the second time in as many months.

Border issues, coupled with material shortages, continued to affect suppliers in May. Average delivery times lengthened for the sixth consecutive month.

Input costs in the manufacturing industry increased in May amid reports of higher prices for chemicals, foodstuff, metals and plastics. Companies also linked inflation to peso weakness. As a result, selling prices were raised for the second straight month in May. Rates of inflation for both price measures remained below their respective long-run averages.

Mexican manufacturers retained optimistic projections regarding the 12-month outlook for production. The level of positive sentiment improved to a three-month high, but remained below its long-run average. Confidence was attributed to plans to expand capacity, launch new products and advertise.

COMMENT

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

"Mexico's manufacturing industry continued to stutter in May, with the headline PMI showing no change in the health of the sector following a fractional improvement in April.

"Output growth was reinstated amid a renewed rise in exports and back-to-back increases in total sales, but in all three cases respective rates of expansion were lackluster.

"Challenges in securing meaningful volumes of new work in recent months translated into further job shedding and another cutback to input purchasing, with the contractions the fastest registered since the survey started in April 2011 as some companies faced cashflow issues and focused on cost-reduction measures.

"Also testing factories' financial resources was a further increase in cost burdens parallel to limited pricing power amid demand weakness. These trends threaten future jobs in the sector should order flows fail to improve in the near-term."

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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.

May 2019 data were collected 13-22 May 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.