Manufacturing production and employment contract at survey-record rates

KEY FINDINGS

- Output falls at solid and quickened pace...
- ..causing sharpest drop in jobs in survey history
- Renewed decline in sales

Following a mild improvement in the health of the manufacturing industry in October, economic conditions took a turn for the worse. November saw a renewed decline in sales contribute to the quickest contractions in production, input buying and employment since the survey started in April 2011. Concurrently, business confidence sank to a series low, dampened by future uncertainty. Subdued demand conditions also acted to attenuate price pressures. Input cost inflation softened to the slowest in the over eight-and-a-half-year survey history, while manufacturers reduced their charges.

At 48.0 in November, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ signalled a modest deterioration in operating conditions. The headline figure was down from 50.4 in October to its lowest mark since the inception of the survey.

Amid reports of falling sales, machinery issues and economic woes, manufacturing production contracted in November. The reduction in output was the sixth in consecutive months and the fastest on record.

Despite falling moderately, new business inflows posted the second-sharpest contraction in the survey history, beaten only by that noted mid-year. Projects pending approval, fewer customer orders, competitive pressures and economic troubles were among the reasons listed by panellists for the decline in sales.

Weak demand from external markets contributed to the drop in total orders, as seen by a solid reduction in new export business midway through the final quarter of 2019. Faced with fewer orders, Mexican goods producers worked through their backlogs and lowered headcounts. Outstanding business declined at a slight pace that was the quickest since February, while the rate of job shedding was the fastest in the history of the survey. Anecdotal evidence pointed to the termination of temporary contracts, downsizing and reduced working hours.

Spending on input buying was likewise curtailed during November. Not only did quantity of purchases fall for the ninth month running, but also at the quickest pace on record. As a result, input holdings declined, after accumulation had been noted in October. The pace of stock depletion was moderate, but the quickest in the survey history. Although post-production inventories continued to increase, the pace of expansion eased to a five-month low and was marginal overall.

Subdued sector conditions dragged the rate of input cost inflation to a survey low, with companies in turn lowering their selling prices. Lastly, business confidence dipped to its lowest level in the series history, with a number of survey participants concerned about market uncertainty and the state of the domestic economy.
COMMENT

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

"PMI data for November showed that weak demand coupled with the postponement of projects caused troubles in the manufacturing industry, while economic uncertainty clouded the outlook and ushered goods producers to pull back their expectations regarding the 12-month outlook for production.

"We saw a number of gauges slip to survey lows, including the PMI, output, quantity of purchases, input stocks and employment indices. As for the latter, there were mentions that lower sales led firms to downsize, reduce work hours and terminate temporary employment.

"The one positive from the latest dataset was a notable reduction in cost pressures. Input price inflation eased to a survey low, while factories reduced their selling charges in attempts to secure new work. These price developments may offer some impetus to demand in the coming months."