Manufacturing sector conditions in Mexico stabilised in February as factory orders, exports and production returned to growth. Although companies lifted quantities of purchases in response to improved demand, employment declined and business sentiment faded to the second-lowest in the series history.

Firms continued to cut selling prices in efforts to boost demand, this time supported by the weakest upturn in input costs in the survey history.

Rising from 49.0 in January to 50.0 in February, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ pointed to a stabilisation in the health of the sector, following three successive months of deterioration.

The upward movement in the headline figure was supported by a return to growth of new orders. The rise in sales was marginal, but the strongest in a year. Companies that noted greater levels of new work mentioned improved construction activity, higher exports, new partnerships and the approval of pending projects.

New business from abroad also expanded for the first time in four months and at the strongest rate in one year.

In response to rising sales, manufacturers lifted production halfway through the opening quarter of 2020. The increase in output was the first in nine months, albeit fractional overall. Survey participants suggested that growth was restricted by challenging economic conditions and a lack of investment.

Improved order flows encouraged goods producers to buy additional materials for use in the production process. The rise in quantities of purchases was only slight, but ended an 11-month sequence of contraction.

Amid reports of input purchases being kept to a minimum, holdings of raw materials and semi-finished items continued to decline in February. That said, the pace of stock depletion was slight and the weakest in the current four-month sequence of reduction. In comparison, inventories of finished goods were unchanged from January.

February data pointed to renewed job shedding, following a brief and only fractional expansion in January. Survey participants that noted lower headcounts commented on restructuring efforts, downsizing and the non-replacement of departed staff.

Although firms remain confident of a rise in production in the year ahead, the overall level of positive sentiment fell to the second-lowest in the series history. Anecdotal evidence highlighted concerns surrounding market uncertainty and a lack of investment.

Input cost inflation eased to a survey low amid the excess supply of some materials and successful price negotiations with vendors. This, coupled with efforts to boost sales, underpinned another reduction in factory gate charges. The rate of discounting was, however, fractional.
COMMENT

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

"There were tentative signs of recovery in Mexico's manufacturing industry during February, following a year of weakness. New orders and exports returned to expansion territory, resulting in the first increase in production for nine months and renewed growth of input buying.

"However, in all cases, rates of expansion were marginal at best and failed to generate any employment. The monthly decline in jobs combined with dwindling sentiment bode ill for demand and production in the near term, with business optimism plunging to the second-lowest in the near eight-year series history. Goods producers were particularly concerned by a lack of investment and market uncertainty.

"One positive was the trend for input cost inflation, which eased to the slowest in the survey history as factories were able to negotiate prices with suppliers who sought to clear excess stocks. This lack of inflationary pressure meant that manufacturers were able to reduce their charges and improve competitiveness, particularly in external markets, while opening the doors for further cuts to the policy rate."

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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.

February 2020 data were collected 12-20 February 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

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.

ihsmarkit.com/products/pmi.html.

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