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IHS MARKIT MEXICO MANUFACTURING PMI™

Manufacturing sector remains in contraction amid dwindling business opportunities

KEY FINDINGS

Demand from domestic and international sources weaken

Production declines for second straight month

Business optimism dampened by recession fears

Faltering domestic and international demand for Mexican goods had a knock-on effect on the manufacturing sector. Back-to-back declines in sales caused further contractions in production and input purchasing, while employment failed to grow for the fifth straight month. Moreover, business sentiment faded to the lowest in the series history and there was a solid rise in stocks amid unsold goods.

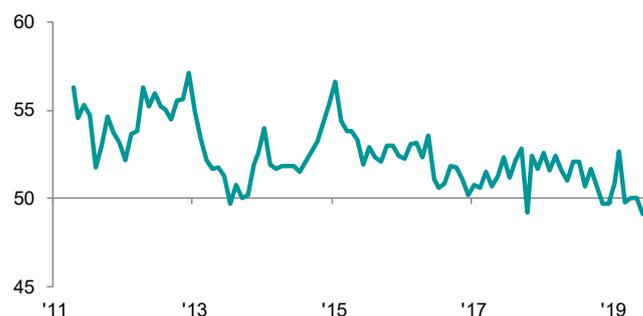
The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ was at 49.8 in July (June: 49.2), recording in contraction territory for the second consecutive month. The below-50.0 reading reflected declines in new orders, output and signs of spare capacity in supply chains. Employment was unchanged from June, while the remaining PMI sub-component – stocks of purchases – rose fractionally.

Total sales decreased for the second month running in July, which panel members attributed to diminished consumption and economic deceleration. However, the rate of reduction was slight and softer than in June.

Similarly, there were back-to-back contractions in new export orders, although the pace of reduction moderated. Panellists commented on subdued economic conditions across the top destinations for Mexican goods, with fewer sales to the US mentioned in particular.

Subsequently, companies scaled down production for the second straight month. The fall was broadly similar to that noted at the end of the second quarter.

Manufacturing PMI
sa, >50 = improvement since previous month



Layoffs at some firms offset the hiring at others and employment was unchanged for the second month in a row. Still, companies were able to clear backlogs of work again.

Another factor preventing companies from lifting output was an unplanned rise in inventories of finished goods, which stemmed from low sales. The pace of stockpiling was solid and the strongest since last November.

Stocks of purchases were broadly unchanged in July as firms continued to trim input buying. Quantities of purchases declined for the fifth straight month, albeit to a lesser extent than in June.

In turn, weak demand for inputs enabled suppliers to deliver purchased materials in a timely manner. Albeit fractional, the shortening of lead times noted in July was the first since November 2018.

Rising cost burdens continued to place strain on margins, with firms lifting selling prices in response. While the rate of input cost inflation softened to a four-month low, charges were raised to the greatest extent since last September. This followed a reduction in output prices in June.

Business confidence waned further, reaching its lowest in the series history. Worries of an economic recession, unstable market conditions, weak client demand and uncertainty towards the outlook were among the factors restricting optimism at the start of the third quarter.

COMMENT

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

"Mexico's manufacturing industry continued to falter as domestic issues were compounded by sluggish global growth. Internally, subdued client confidence, weak consumption and economic deceleration restricted sales. Lethargic activity in key destinations for Mexican goods exports and trade tensions reportedly curbed external sales.

"Lower sales in the past two months translated into an unplanned rise in stocks of finished goods during July, one that was solid and the most pronounced since last November. As a consequence, companies reduced production for the second month running and may restrict output further in the near-term until stocks are used up.

"Also boding ill for the outlook was a substantial dip in business confidence. We saw optimism fade in July to its weakest since expectations data were first compiled in early-2012. Firms were highly concerned about the prospects of an economic recession, unstable market conditions, weak client demand and an uncertain outlook."

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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.

July 2019 data were collected 12-23 July 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.