IHS Markit Mexico Manufacturing PMI™

Prolonged closures drive further deterioration in business conditions in July

Key findings

Further marked decline in the health of the manufacturing sector

Output and new orders continue to tumble, albeit at softer rates

Pace of workforce contraction remains sharp

July PMI™ data pointed to another marked decline in business conditions faced by Mexican good producers as both output and new orders continued to fall amid prolonged coronavirus disease 2019 (COVID-19) shutdowns. The health of the manufacturing sector was also hampered by another sharp reduction in employment. Meanwhile, input prices broadly stabilised following three months of decline.

The headline seasonally adjusted IHS Markit Mexico Manufacturing PMI registered 40.4 in July, up from 38.6 in June. The latest reading pointed to another substantial deterioration in manufacturing operating conditions, with many businesses still closed due to the COVID-19 outbreak. However, the rate of decline eased to the softest since before the virus began to severely hamper the Mexican economy in April.

Production in Mexico’s manufacturing sector continued to decline in July, extending the current sequence of contraction that began in March. Although the latest reduction was the softest for four months, it remained among the fastest since data collection began in April 2011. Panellists widely associated falling output with ongoing business closures.

The prolonged shutdown at some firms continued to stifle demand conditions faced by Mexican manufacturers in July. New orders fell for the fifth month in a row and the pace of reduction remained historically marked. That said, the latest decline was the softest since March, helped by a slower fall in exports.

Comment

Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, said:

“The latest PMI data suggested that the Mexican manufacturing sector is continuing to struggle amid the COVID-19 outbreak. Although rates of decline in output and new orders eased further from April’s records, the overall contractions remained sharp. With many businesses remaining closed, demand is still severely depressed and that is being reflected by continuous job cutting that only weighs further on new business, creating a downward spiral.

“One sign of more positive news is that sentiment towards future activity prospects is slowly improving, although it remains negative overall. This suggests that an increasing number of panellists are becoming confident that the worst of the crisis will soon be over, and then we may start to see a reversal of the job cuts and activity declines recorded since the start of the pandemic.”

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Faced with a weaker demand environment, firms continued to cut their staff numbers at the start of the third quarter. The rate of job shedding eased to the slowest in four months, but it remained substantially quicker than any recorded prior to the pandemic.

Similar to the trend for employment, goods producers pared back their purchasing activity in July. Many panellists commented that declines were due to a lack of new orders. The rate of contraction eased from June but remained marked overall.

There was further evidence of supply-side disruption in the Mexican manufacturing sector during July. Albeit to a lesser extent than in the previous three months, vendor performance continued to decline markedly. Anecdotal evidence suggested delays were driven coronavirus-induced shutdowns at some suppliers.

On the cost front, input prices were broadly unchanged at the start of the third quarter, following three months of successive decline. While some panellists suggested a stronger US dollar had driven costs higher, others saw input prices fall amid softer demand conditions.

Despite the stabilisation in input costs, firms opted to continue cutting output prices in July. The result extended the current run of discounting that began last November, though the rate of reduction eased to the softest since March. Survey participants suggested lower charges were designed to attract new clients.

Looking forward, manufacturers remained pessimistic towards the 12-month business outlook, but the degree of negativity eased to the softest in four months. Firms’ pessimism was predominantly driven by fears of a prolonged economic downturn.

Survey 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.

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

Survey dates and history
Data are collected 13-23 July 2020.

Survey data were first collected April 2011.

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