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IHS MARKIT MEXICO MANUFACTURING PMI™

Business conditions continue to deteriorate sharply amid coronavirus lockdown

KEY FINDINGS

Health of manufacturing sector declines further in May

Production contracts sharply amid ongoing factory closures

New orders continue to fall markedly

May data pointed to another sharp deterioration in business conditions faced by Mexican goods producers, with ongoing coronavirus restrictions causing many factories to remain closed. Albeit slower than the record contraction in April, output continued to fall sharply. Meanwhile, demand conditions continued to soften, with new orders tumbling further, partially driven by a marked decline in exports. Faced with softer inflows of new business and restrictions limiting production capacity, firms continued to lay-off workers.

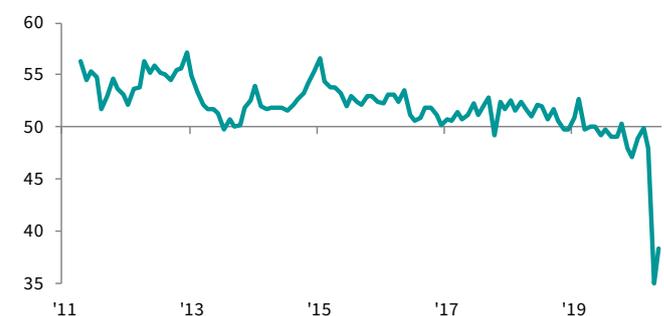
Looking forward, manufacturers remained pessimistic towards the business outlook, but the degree of negativity was softer than in April.

Rising from a record low of 35.0 in April to 38.3 in May, the seasonally adjusted IHS Markit Mexico Manufacturing PMI pointed to a softer deterioration in business conditions across the Mexican manufacturing sector. However, the rate of decline remained sharp, with many businesses staying closed amid coronavirus lockdown restrictions.

The deterioration in operating conditions was partially driven by another fall in production during May. The rate of decline eased slightly from April's survey record, but was sharp overall. Panellists widely reported a complete suspension of production.

Amid restrictions to stem the spread of coronavirus, demand conditions were severe hampered in May. New orders placed with manufacturers fell drastically for the second month in a row, although the latest decline was slower than that recorded in April.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Aggregate demand received little support from international markets, with new export orders continuing to contract sharply. That said, the rate of reduction eased from April, which was the fastest since data collection began over nine years ago.

Mexican manufacturers pared back staff numbers for the fourth in a row during May. Moreover, the rate of workforce contraction was historically marked, with panellists often linking employment reductions to a downturn in demand.

On the supply-side, there was further evidence of severe disruption. Input delivery times lengthened sharply, with panellists citing shortages of some materials due to reduced capacity at their suppliers. That said, the latest deterioration was softer than that recorded in April.

Meanwhile, following the first reduction in over nine years of data collection during April, input prices fell further in May. That said, the latest decrease was slower than in the previous survey period and modest overall. On average, firms passed cost reduction onto their clients with a cut to output charges.

Finally, for only the third time since the series was inception in April 2012, firms were pessimistic towards the 12-month business outlook. Sentiment was slightly stronger than recorded in April, however.

COMMENT

Commenting on the PMI data, Eliot Kerr, Economist at IHS Markit said:

"Although the latest PMI results revealed a broad-based rise in index readings, the figures remained below 50.0, pointing to further reductions from April's already low base. That said, the rates of decline in key metrics such as output and new orders eased during May, suggesting that contraction are beginning to bottom out. Moreover, with the recent announcement that restrictive measures are to be gradually removed, the trend towards recovery should accelerate over the coming weeks."

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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 2020 data were collected 12-20 May 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.
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