

Embargoed until 0930 Mexico City (1530 UTC) 2 January 2019

IHS MARKIT MEXICO MANUFACTURING PMI™

PMI remains in contraction amid back-to-back declines in production

KEY FINDINGS

PMI unchanged at 49.7 in December

Second successive reduction in output

Business sentiment hits series low

Mexico's manufacturing industry stayed in contraction at the end of the year, with further reductions in output and buying levels matched by renewed declines in jobs and stocks of purchases. Total new orders and exports continued to expand, but growth rates remained subdued. Concurrently, business sentiment dipped to the lowest level in the series history during December.

The headline IHS Markit Mexico Manufacturing PMI™ was unchanged in December from the mid-quarter reading of 49.7, signalling a second successive deterioration in the health of the sector. The below-50.0 figure reflected contractions in three of its five sub-components: output, stocks of purchases and employment. Growth of order books was sustained, while there was a lengthening of delivery times.

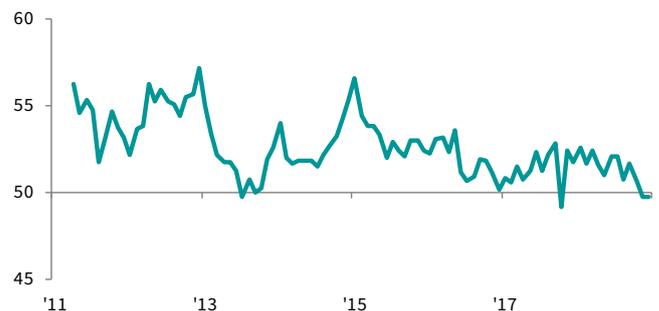
Production decreased due to a combination of subdued demand, competitive pressures, input shortages, planned maintenance and the annulment of contracts. The pace of reduction was slight, however, and softened from November.

A further mild increase in new work was registered during December. Growth was underpinned by product diversification, though curbed by unwanted stock accumulation at clients and weak sales, in part arising from high tariffs on steel.

New export orders rose for the tenth successive month, but at the second-weakest pace in this sequence.

Soft demand conditions led to a renewed contraction in manufacturing employment. Firms noting lower payroll

Manufacturing PMI
sa, >50 = improvement since previous month



numbers reported high churn rates, while those that took on extra staff cited the hiring of temporary labour. Overall, the pace of job shedding was fractional.

Quantities of purchases decreased for the second straight month at the end of the year, but at a softer pace. The downturn was caused by lower production requirements at some plants, though curtailed by additional purchasing at companies that sought to benefit from reduced prices for some materials.

On the cost side, there was a moderation in inflation to the weakest in 15 months. The sustained rise in purchasing prices was largely attributed to peso depreciation relative to USD, with firms citing higher chemical, food, metal, plastic and textile costs in particular. Selling prices were lifted as a consequence, but here too a moderation in inflation was seen.

The trend for stocks was mixed. Holdings of inputs fell for the first time in seven months amid lower buying levels and suppliers' delivery delays, while inventories of finished items rose due to the cancellation of some orders and recent efforts to rebuild stocks.

Business sentiment dipped to its lowest level since data became available in April 2012, with firms concerned about security and political issues, as well as signs of a cooling economy.

COMMENT

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

"The Mexican manufacturing sector showed little signs of shaking off its fragility in December, posting back-to-back modest contractions in production. Businesses continue to struggle in the face of soft demand conditions, with another round of only marginal rises in output prices failing to recoup growth momentum in new orders. Data suggested that the domestic and international markets were sources of weakness, reflecting the wider sluggish performance of the Mexican economy and relatively low sales to the US. Companies responded to subdued workloads by reducing headcounts, with employment down for the first time in over a year, albeit marginally."

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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.

December 2018 data were collected 5-13 December 2018.

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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.