News Release

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IHS MARKIT MEXICO MANUFACTURING PMI™

Mexican manufacturing downturn moderates in January

KEY FINDINGS

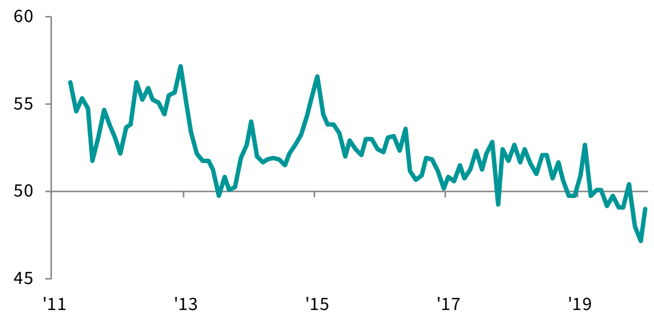
Contractions in sales and output ease

Subdued cost increase allows for price discounting

Business optimism strengthens

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

After posting its worst performance in the near nine-year survey history during December, Mexico's manufacturing downturn eased at the start of 2020. Softer and only modest contractions were registered for new orders, output and input buying. At the same time, employment returned to growth territory and business confidence hit an eight-month high.

Meanwhile, lower aluminium, plastic and oil prices curtailed input cost inflation, which in turn supported a further reduction in factory gate charges.

The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ was in contraction territory for the third straight month in January. However, rising from December's survey-low reading of 47.1 to 49.0, the headline figure pointed to a marginal deterioration in operating conditions that was the weakest over the aforementioned sequence.

Goods producers continued to report falling new work in January, but the downturn softened to the slowest in the current three-month period of reduction. Where sales declined, survey participants commented on weak demand, competitive pressures and a bearish market. Similarly, exports decreased at the weakest pace since last October.

January saw a further drop in output, the eighth in as many months. According to panel members, demand weakness, market uncertainty and a lack of new contracts all hampered production. However, the pace of reduction was moderate and the slowest since last October.

While current conditions remained challenging, Mexican manufacturers foresee better times ahead. Over a third of survey participants expect production growth over the course of the coming 12 months, with the overall level of positive sentiment strengthening to an eight-month high. Reasons underpinning optimism included new product releases, advertising and hopes of an improvement in investment.

Predictions of better economic conditions drove jobs growth in January. Despite being marginal, the rise in employment was the first in three months and supported a reduction in outstanding workloads.

Although firms continued to lower input buying, the rate of contraction seen in January was marginal and the slowest in ten months. Consequently, holdings of raw materials and semi-finished items decreased to a lesser extent. By comparison, stocks of finished goods rose marginally at the start of 2020.

Amid reports of higher prices for chemicals, foodstuff and some metals, average cost burdens increased again. That said, the rate of inflation softened on the back of lower charges for aluminium, plastic and oil.

Restrained input cost inflation enabled some firms to charge less for their goods in January. Factory gate charges decreased for the fourth time in the past five months.

PMI™ By IHS Markit

COMMENT

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

"The downturn of Mexico's manufacturing industry appears to have bottomed out, with key PMI indices moving higher in January. In addition to softer contractions in new orders, exports, input buying and output, the latest results bring welcoming news on the employment and business sentiment fronts.

"Jobs grew for the first time since October, while optimism strengthened to an eight-month high. Still, there is a note of caution from the uptick in confidence, which was mostly associated with hopes of an improvement in investment and expectations that marketing efforts as well as new product releases can boost sales.

"IHS Markit forecasts only marginal economic growth in 2020, +0.7%, as policy uncertainty prevails and constrained investment remains an issue. The rise in GDP is predicted to be driven by private consumption, aided by interest rate cuts and credit expansion."

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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.

January 2020 data were collected 13-23 January 2020.

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

About IHS Markit

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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. To learn more go to ihsmarkit.com/products/pmi.html.