News Release

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IHS MARKIT
MEXICO MANUFACTURING PMI™

Mexican manufacturing downturn moderates in January

KEY FINDINGS

- Contraction in sales and output ease
- Subdued cost increase allows for price discounting
- Business optimism strengthens

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.
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."