

IHS Markit Mexico Manufacturing PMI™

Business conditions broadly stabilise in July

Key findings

At 49.6, PMI edges closer to 50.0 threshold

Slower declines in production, new orders and employment

Input cost inflation hits three-year high

Data were collected 12-22 July 2021.

July data highlighted tentative signs of a recovery in the health of the Mexican manufacturing industry, with production declining at the slowest rate in the current 17-month sequence of contraction amid a softer fall in sales. Concurrently, jobs decreased only fractionally and business sentiment strengthened. Input costs continued to rise amid ongoing supply-chain disruptions. The rate of inflation was the fastest in three years.

The seasonally adjusted IHS Markit Mexico Manufacturing PMI™ rose for the second month running in July, from 48.8 in June to 49.6, approaching the 50.0 no-change mark. The latest figure was the highest in the current 17-month sequence of contraction.

Manufacturers signalled a further decline in output, but the rate of contraction was moderate and the slowest since the current period of downturn started in March 2020. Some companies indicated that production fell due to raw material shortages, the COVID-19 pandemic and low sales. However, the reduction was curbed by rising output at firms that noted increases in new projects.

Aggregate factory orders decreased for the seventeenth consecutive month in July, albeit at the weakest pace over this period. Where sales fell, companies cited subdued demand, business closures and the adverse effects of the COVID-19 pandemic. At the same time, some firms indicated that the signing of pending contracts boosted sales at their plants.

Similarly, new export orders decreased further at the start

continued...

Mexico Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"It is encouraging to see the headline PMI stir closer to the critical 50.0 threshold and some reports of rising sales among Mexican manufacturers. Although several firms indicated that the COVID-19 pandemic and raw material scarcity hampered production, the overall downturn eased amid growth at other plants."

"The sector was again impacted by bottlenecks at global logistic firms, with raw material shortages and delivery delays leading to rising backlogs of work, declines in stocks and a substantial increase in overall input costs. The rate of inflation was the strongest for three years and well above the series average. The central bank raised the benchmark interest rate in June to curb inflation and further hikes are expected. Such a move may restrict consumption and investment."

"A number of companies sought to protect margins from cost increases and hiked their fees, but several others held back due to efforts to boost sales. Average output charges stabilised in July, after falling in each of the prior 20 months. Should input costs continue to rise at elevated rates in the coming months, we'll likely see this feed through to final-product charges."

of the third quarter but at the slowest rate since March 2020 as some firms were able to secure new work from external clients.

Goods producers noted a further increase in cost burdens during July, with the rate of inflation quickening to a three-year high. According to panel members, raw material scarcity and bottlenecks at global logistic firms continued to exert upward pressure on input prices.

Some firms opted to pass on to their clients part of the additional cost burden by increasing selling prices. However, others refrained from doing so amid efforts to remain competitive. As a result, overall charges were unchanged from June following a 20-month sequence of discounting.

Although July data pointed to another round of job shedding, the rate of contraction was marginal and the slowest in a year and a half.

Meanwhile, manufacturers noted the first increase in backlogs of work since the onset of the pandemic, with the rate of accumulation the fastest in just under four-and-a-half years. The upturn was often linked to delivery delays among suppliers and raw material shortages.

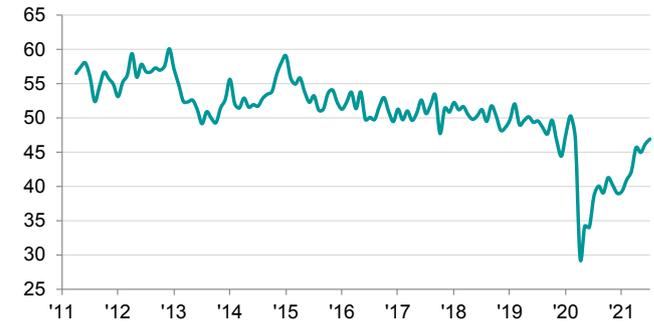
Not only did lead times lengthen again in July, but also to the greatest extent in six months and one that was unprecedented prior to the COVID-19 crisis.

Both pre- and post-production stocks decreased in July, which panellists attributed to a lack of raw material availability. In the case of input holdings, the fall was faster than any seen prior to the COVID-19 outbreak.

Businesses became more optimistic towards the 12-month outlook for production, with the overall degree of confidence the strongest in one-and-a-half years. Firms anticipated a pick-up in sales and improved raw material availability.

Output Index

sa, >50 = growth since previous month



Source: IHS Markit.

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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 350 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 were collected 12-22 July 2021.

Survey data were first collected April 2011.

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