August PMI™ data pointed to another marked deterioration in business conditions across the Mexican manufacturing sector, as firms continued to grapple with the effects of the coronavirus disease 2019 (COVID-19) pandemic. Despite the rate of contraction easing from July, production continued to fall sharply as demand conditions remained heavily subdued. The prolonged downturn led firms to continue cutting staff numbers, although the rate of workforce contraction eased to the softest since March.

The headline seasonally adjusted IHS Markit Mexico Manufacturing PMI registered 41.3 in August, up from 40.4 in July. The latest reading signalled a marked deterioration in the health of the Mexican manufacturing sector, albeit one that was the softest for five months.

The prolonged downturn was partially driven by another fall in production midway through the third quarter. That said, the rate of contraction eased for the fourth month running to reach the softest since before the escalation of restrictions in Mexico during April. When explaining the latest reduction in output, panellists commonly cited subdued demand conditions.

Faltering demand was evidenced by a further decline in new orders received by Mexican goods producers in August. Moreover, the rate of reduction was broadly in line with that seen in July, remaining among the quickest since data collection began in April 2011. Some survey participants commented that many of their clients remained closed or...
operating below full capacity.

Overall new orders received little support from international markets in the latest survey period. Foreign sales continued to fall, extending the current sequence of decline to six months. However, the rate of reduction eased for the fourth time in as many months and was the softest since March. While some panellists mentioned an increase in orders from the US, other comments suggested that international activity remained subdued overall.

In coherence with the ongoing slowdown in demand, Mexican manufacturers continued to pare back their staff numbers in August. However, despite remaining quicker than any recorded prior to the COVID-19 outbreak, the rate of workforce contraction decelerated. In fact, the latest fall in employment was the slowest for five months.

On the cost front, input prices faced by Mexican good producers rose for the first time since March. Although modest, the rate of inflation was the quickest in 2020 so far. When explaining increased cost burdens, survey participants often mentioned higher prices for raw materials and unfavourable movements in the US dollar exchange rate.

Despite the rise in input prices, firms opted to continue cutting average output charges. That said, the latest reduction was the softest for five months. Anecdotal evidence indicated that panellists reduced output prices in an effort to win new orders.

Finally, sentiment towards the 12-month business outlook remained in negative territory for the sixth month in a row during August. However, expectations continued to trend towards neutrality, with the degree of pessimism easing for the fourth month running.