

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Mexico Manufacturing PMI™

Production falls for first time in seven months

Key findings:

- Output contracts in May, albeit marginally
- New order growth slows
- Input stocks fall amid drop in buying levels

Data collected May 11-22

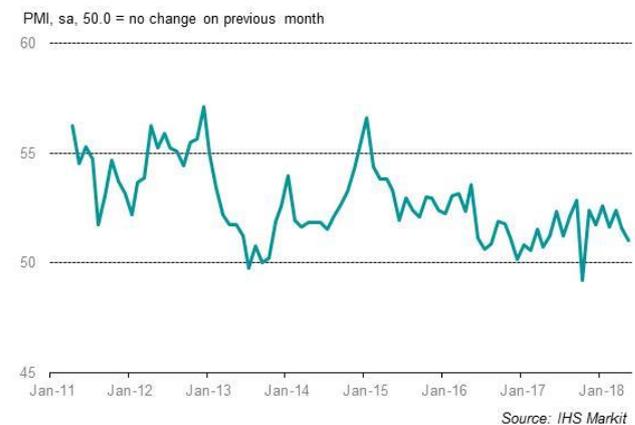
Manufacturing companies in Mexico signalled lower output midway through the second quarter as subdued demand conditions, efficiency losses and the upcoming presidential election affected production. Total factory orders continued to rise, supported by external sales, but the upturn was the slowest in the current seven-month period of uninterrupted growth. Whereas peso depreciation (versus US dollar) translated into greater exports, imported items became costlier to goods producers. As a result, companies cut back on input purchasing as the rate of cost inflation climbed to a 15-month peak.

Remaining above the no-change mark of 50.0 in May, the seasonally adjusted IHS Markit Mexico Manufacturing PMI™ signalled a further upturn in the health of the sector. Nonetheless, the headline figure was down from 51.6 in April to 51.0, its lowest level in the current seven-month period of improving business conditions.

Order book volumes increased for the seventh straight month in May, though at a slight pace that was the slowest in this sequence. Where new work had been secured, panellists mentioned expanded client bases and improved demand from abroad. New export work rose at a broadly similar rate to those seen in the current three-month period of growth. Survey participants frequently attributed the upturn to peso depreciation.

May saw manufacturing production dip for the first time in seven months, but the rate of reduction was

IHS Markit Mexico Manufacturing PMI



marginal overall. A combination of subdued sales, efficiency issues and politics resulted in lower output, according to panellists.

With demand growth cooling, firms focused on the completion of unfinished business. A modest decline in backlogs was noted in May, with some companies suggesting that extra hiring supported the completion of outstanding work.

Indeed more people were placed into jobs, with the rate of employment growth accelerating to the strongest since October 2015. That said, anecdotal evidence suggested that many filled vacancies were of a temporary nature.

The depreciation of the Mexican peso against the US dollar meant that manufacturers paid more for imported inputs during May. The overall rate of cost inflation reached a 15-month peak. To protect margins, goods producers raised their own charges again, albeit moderately.

Input purchasing was postponed due to price hikes, with buying levels falling for the first time since October 2017. Subsequently, holdings of raw

materials and semi-finished items decreased further in May. Conversely, stocks of finished goods rose, reversing the contraction registered in April.

Finally, survey members indicated that product diversification, projects in the pipeline, planned exhibitions and investments are all likely to drive output growth in the coming 12 months. However, overall sentiment was subdued by historical standards.

Comment

Commenting on the IHS Mexico Manufacturing PMI survey data, **Pollyanna De Lima, Principal Economist at IHS Markit** and author of the report, said:

“Uncertainty arising from the upcoming presidential election distressed Mexico’s manufacturing industry in May. Input purchasing and production contracted for the first time in seven months, while the upturn in overall demand was subdued by historical standards.

“Producers gained a competitive edge in global markets amid peso depreciation against the US dollar. However, the expansion in new export work was mild, with currency weakness bringing inflationary pressures to the sector. Coupled with rising commodity prices, peso depreciation drove cost inflation to a 15-month peak.

“Caution was also signalled by a softer degree of business sentiment and the hiring of temporary workers. It is expected that Mexican companies will remain attentive to political developments, with a clearer path to economic performance only visible after the announcement of election results.”

-Ends-

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Note to Editors:

The IHS Markit Mexico Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified company workforce size and by Standard Industrial Classification (SIC) group, based on industry contribution to Mexican GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

The Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index*™ (PMI™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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About PMI

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