

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

Growth edges higher but confidence falls markedly and costs surge

Key findings:

- Slightly stronger rise in new orders underpins rise in production
- Weaker peso drives up input costs at considerable rate
- Confidence weakens amid political and economic uncertainty

Data collected January 12-23

Markit Mexico Manufacturing PMI (seasonally adjusted)



Source: IHS Markit

Growth of Mexico's manufacturing sector was sustained at a marginal pace during January as output returned to expansion and new orders continued to rise slightly. Employment also increased, but rates of growth generally remained relatively subdued amid ongoing political and economic uncertainty. This served to undermine optimism as highlighted by a record low level of confidence amongst manufacturers. Unfavourable exchange rate factors also led to the strongest monthly increase in input prices since October 2011.

The headline Markit **Mexico Manufacturing PMI™** – a composite single-figure indicator of manufacturing performance – registered 50.8 in January. That was up from 50.2 in December, but nonetheless indicative of a marginal rate of improvement that remained noticeably lower than the survey's historical average.

Providing some support to the PMI in January were increases in both output and new orders. Output rose modestly after posting a slight fall in December, while there was a similarly-sized increase in new orders. In both cases, the respective indices remained muted by historical standards amid reports of ongoing economic and political uncertainty.

The uncertain outlook was also reported to have limited new export orders, although growth accelerated to a three-month high.

Meanwhile, a weaker Mexican peso relative to the US dollar led to ongoing increases in dollar-denominated imports in January. Subsequently overall input price inflation surged to the highest recorded level for over five years, and encouraged manufacturers to protect margins through an increase in their own prices. Latest data showed average costs increasing during January to the greatest extent in 10 months.

A sharper rise in new orders relative to production led to some pressure on capacity during January as evidenced by a rise in backlogs of work for the first time since May 2016. Manufacturers were suitably encouraged to take on additional staff over the month, with employment continuing to rise at a

pace similar to the modest rates seen during the second half of 2016.

Mexican manufacturers were able to further add to their warehouse inventories during January, extending the current trend to 22 months. Moreover, the rate of expansion was stronger than that seen in December. Purchasing activity also rose modestly, but inventories of raw materials and semi-manufactured goods were reduced.

Finally, optimism with regard to future output was sustained in January, albeit to a much lesser degree (the lowest in nearly five years of data collection). Manufacturers blamed ongoing political and economic uncertainty for the noticeable drop in sentiment.

Comment

Commenting on the Mexico Manufacturing PMI survey data, Paul Smith, senior economist at IHS Markit and author of the report, said:

“January’s PMI data signalled another month of relatively subdued growth in Mexico’s manufacturing sector, as economic and political uncertainties continued to undermine confidence. This was evidenced in particular by our newly released Future Output Index, which plunged in January to a near five-year series low.

“Meanwhile, a weak peso meant that imported costs continued to rise markedly, helping to drive input costs up to the greatest degree in over five years. Inflation was subsequently pushed a little further up the supply chain with output charges rising at the fastest rate in 10 months.”

-Ends-

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Note to Editors:

The 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.

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 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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