News Release

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S&P Global Mexico Manufacturing PMI™

Supply chain woes underpin unprecedented rise in backlogs and near-record increase in input costs

Key findings

Fastest upturn in backlogs since survey started in 2011

Input costs rise at second-sharpest pace on record

Total sales fall further, but exports expand strongly

The Mexican manufacturing industry was again negatively impacted by lingering problems in supply chains, a key factor leading to an unprecedented increase in outstanding business and the second-sharpest rise in input costs since the survey started in early-2011. Weakness was also seen on the demand side of the economy, with another decline in factory orders causing a further contraction in output.

There was good news with regards to international trade, however, with monitored companies recording the fastest expansion in new export orders since February 2019. In turn, this supported back-to-back increases in employment.

Posting 50.6 in May, up from 49.3 in April, the headline S&P Global Mexico Manufacturing Purchasing Managers' Index™ (PMI™) was above the critical 50.0 threshold for the first time in 31 months. The expansion reflected stronger job creation and a more pronounced deterioration in vendor performance.

Indeed, average lead times lengthened to a greater extent than in April, with survey participants associating the deterioration with input shortages, port closures, issues with transportation and the war in Ukraine.

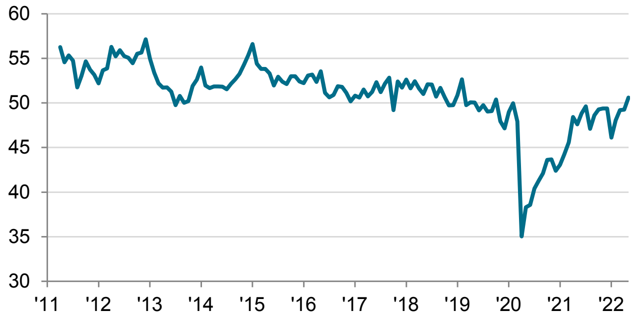
Amid delivery delays and input shortages, outstanding business volumes among Mexican manufacturers continued to increase midway through the second quarter. Moreover, the rate of accumulation was steep and the fastest on record.

There was a further upturn in input costs facing goods producers. The latest rise was sharp and the second-fastest in the survey history. According to panellists, global inflation, price list hikes among suppliers, raw material scarcity and Russia's invasion of Ukraine all pushed up cost burdens.

Some companies opted to pass on to their clients ongoing increases in cost burdens by lifting their selling prices. The overall rate of charge inflation was marked and outpaced its long-run average, but nevertheless eased from April.

Mexico Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-23 May 2022.

Comment

Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said:

"The key positive takeaways from the latest set of PMI data were stronger increases in export orders and employment. In particular, firms noted higher sales to clients based in the US, whilst job creation was mostly linked to the hiring of temporary staff as businesses wait for a meaningful and sustained rebound in sales.

"There were further declines in total new orders, production and purchasing activity during May, albeit with rates of contraction slowing since April.

"Mexican manufacturers continued to report soaring expenses midway through the second quarter, which they associated with rising energy prices amid the war in Ukraine, raw material scarcity and a generally inflated market. The overall rate of input cost inflation climbed to the second-highest in the survey history.

"Mounting inflationary pressures was a key factor dampening business confidence in May, with companies also worried that the economic outlook could be harmed by input shortages, ongoing issues in the automotive sector and subdued demand conditions."

PMI™ by S&P Global

May data pointed to a further decline in factory orders in Mexico, taking the current sequence of contraction to 27 months. That said, the rate of reduction was marginal overall and the slowest over this period.

Underlying data indicated that the domestic market was the key source of demand weakness, as goods producers noted back-to-back increases in new export orders. Moreover, the rate of improvement in international demand was solid and the strongest in 39 months.

Manufacturing employment rose for the second straight month in May, and at the quickest pace since early-2019. Anecdotal evidence highlighted the hiring of temporary staff and trainees.

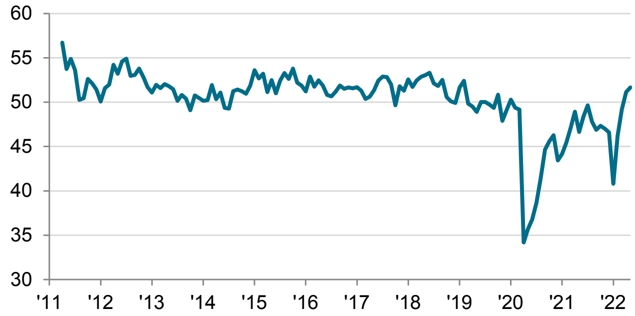
Mexican manufacturers signalled another decline in production volumes, marking a 27-month sequence of contraction. However, the rate of reduction was mild relative to those seen over this period. Where a fall was reported, panellists mentioned weak sales, input shortages, acute price pressures and the Russia-Ukraine war.

Although goods producers foresee output growth over the course of the coming 12 months, overall sentiment slipped from April's recent high. Optimism was dampened by concerns regarding input availability, lingering issues in the automotive sector, subdued demand and mounting price pressures.

Finally, price pressures and raw material scarcity restricted input buying in May whilst causing further declines in stocks of both raw materials and finished products. In all three cases, however, rates of contraction eased from April.

PMI Output Index

sa, >50 = growth since previous month



Source: S&P Global.

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Survey methodology

The S&P Global Mexico Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in April 2011.

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.

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