News Release

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S&P Global Mexico Manufacturing PMI™

Output heads towards stabilisation as new orders increase

Key findings

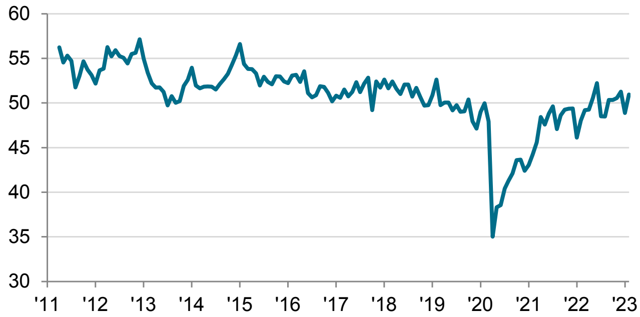
Manufacturing production falls only marginally

Renewed expansion in order book volumes

Cost inflation ticks higher

Mexico Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 10-20 February 2023.

Manufacturing conditions in Mexico improved in February, with the PMI™ edging above 50.0 amid renewed growth of new orders, employment and stocks of purchases. Although production decreased further, the latest contraction was marginal and softer than in January. Domestic and external factors pushed input cost inflation higher, but selling prices rose only slightly. Business sentiment remained positive, despite being hampered by concerns surrounding inflation, competitive conditions, the war in Ukraine and staff shortages.

Rising from 48.9 in January to 51.0 in February, the S&P Global Mexico Manufacturing Purchasing Managers' Index™ (PMI™) indicated a renewed improvement in the health of the sector. The headline figure was in growth territory in five of the latest six months.

New orders, the largest sub-component of the PMI, expanded in February after falling for the first time in three months at the start of 2023. Although slight, the rate of growth was the strongest seen in four years. Where sales rose, panel members mentioned better demand conditions and competitive pricing.

International markets contributed to the latest upturn in total sales, with new export orders increasing at the quickest pace since mid-2022. Firms generally reported better external demand for their goods, particularly from the US.

Despite the uptick in order book volumes, companies refrained from lifting production halfway through the first quarter. Output decreased for the second month in a row, but only marginally. In some instances, panellists indicated that staff shortages hindered production.

A high churn rate negatively influenced headcounts at goods producers in February, according to anecdotal evidence, with companies actively trying to replace voluntary leavers and contractor no-show. Employment increased overall, but only marginally.

Comment

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

"It's promising to see a recovery in demand for Mexican goods in February, particularly the relatively strong uptick in international sales. However, prior efforts to rebuild inventories meant that firms had sufficient stocks in warehouses to fulfil new order growth. Thus, production decreased for the second straight month.

"Companies faced some adversities halfway through the quarter, one being constantly increasing input costs. February's rate of inflation was below all of those seen in 2022, but remained historically high and even quickened from January. Another ordeal encompassed having sufficient employees to progress with production schedules as planned. Manufacturers found it very difficult to retain and replace workers, with temporary staff reportedly not showing up for their shifts.

"These aforementioned headwinds, added to the ongoing war in Ukraine, curbed business confidence in February but survey members were on average optimistic that output would increase in the year ahead. Indeed, we forecast industrial production to grow +2.2% y/y in 2023."

Energy price volatility, the war in Ukraine, unfavourable exchange rates and material shortages again exerted upward pressure on input prices. Moreover, cost burdens rose at a sharp pace that was faster than in January.

Yet, only 5% of companies lifted their charges, with 93% leaving them unchanged from January. On average, output prices rose at a slight rate that was broadly similar to that registered at the start of the year.

Mexican manufacturers signalled a more pronounced deterioration in vendor performance during February, though one that was among the softest since the onset of COVID-19. Delivery delays were often attributed to input and staff shortages among suppliers.

Firms made increased efforts to secure critical inputs in February, purchasing additional materials in attempts to complete pending workloads. Buying levels rose slightly, following a marginal decline in January. Concurrently, backlogs expanded at the slowest pace in a year.

For the first time in close to three-and-a-half years, input inventories rose midway through the first quarter. The pace of accumulation was modest but the fastest since January 2018. Orders pending completion and prior attempts to avoid stockouts reportedly underpinned growth.

Post-production inventories also rose, following a contraction in January. Panellists that signalled growth mentioned weak sales, slow distribution and efforts to ensure sufficient stocks were held in warehouses.

Labour issues, inflation, competitive pressures and the war in Ukraine dampened business confidence in February. The overall level of positive sentiment slipped to a six-month low.

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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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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