

News Release

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S&P Global Mexico Manufacturing PMI™

Headline PMI climbs to highest mark in over seven years

Key findings

Solid improvement in operating conditions

Marked increase in new orders boosts output growth

Input cost inflation recedes, selling charges decline further

Mexico's manufacturing sector witnessed a positive upswing in July, with many indicators moving in the right direction. The latest results highlighted a notable rebound in sales, a boost in exports and rising production volumes. Providing some relief to businesses, cost inflationary pressures retreated, which in turn supported another round of output charge discounting. Elsewhere, firms scaled up buying levels and hired extra staff, while supplier delivery times lengthened markedly.

Rising from 50.9 in June to 53.2 in July, the S&P Global Mexico Manufacturing Purchasing Managers' Index™ (PMI™) indicated the strongest improvement in the health of the sector in over seven years. All five sub-components of the PMI offered a larger contribution to the headline reading, including the Suppliers' Delivery Times Index which is inverted before entering the calculation.

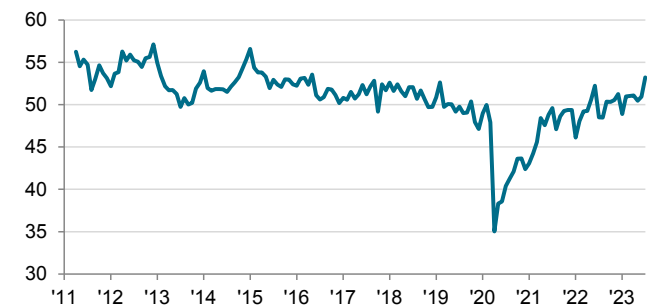
July data showed a substantial increase in new orders placed with goods producers. The expansion compared with reductions in each of the prior two months and was the strongest since February 2019. When explaining the upturn, companies mentioned retreating price pressures, favourable weather conditions and buoyant client demand.

The latest results indicated that the upturn in total sales was aided by a recovery in exports. International orders rose for the first time in five months, and at a solid pace that was the most pronounced in nearly four-and-a-half years.

With demand conditions improving over the month, manufacturers stepped up production at the start of the third quarter. Output rose at a moderate pace that was nonetheless the fastest since early-2019.

Part of the rise in sales was supported by a reduction in factory gate charges. The latest fall was the second in successive months and the quickest since November 2021, albeit slight overall.

Mexico Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 12-21 July 2023.

Comment

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

"Mexico's manufacturing PMI results revealed a solid rebound in sales accompanied by an upswing in new export orders and sustained production growth in July. These positive readings bode well for potential GDP growth in the third quarter.

"Manufacturers were confident that output volumes would increase further in the medium-term, with plans to price competitively, marketing initiatives, favourable tourism and positive demand trends listed as opportunities to growth prospects. Nearshoring potential as businesses shift operations away from Asia and into Mexico to fulfil demand from the US also point to a positive outlook for Mexico's economic performance.

"Price indices showed receding cost inflationary pressures and another reduction in factory gate charges. Should inflation remain manageable, the central bank could cut the policy interest rate as we head towards the end of 2023 to support and further stimulate economic activity."

PMI™

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Although input costs continued to increase, the rate of inflation retreated in July and was broadly in line with its long-run average. Survey members noted higher prices for foodstuff and electronic components. Competition among suppliers, favourable exchange rates and lower prices for oil by-products reportedly curbed inflation.

To accommodate for rising new orders, goods producers hired additional staff in July. Anecdotal evidence indicated that existing vacancies had been filled with a combination of permanent and temporary workers. While marginal, the latest increase in jobs compared with a fall in June.

Mexican manufacturers again sought to replenish inventories and hedge against potential shortages by purchasing additional inputs in July. The rate of growth was marked and the strongest since May 2016.

Another factor that encouraged input buying growth was a maintained effort among firms to clear pending workloads. July saw the rate of backlog accumulation quicken to its fastest in nine months, which firms often attributed to raw material shortages and delivery delays.

Indeed, average lead times on inputs lengthened further in July amid intermittent input availability at suppliers and slow shipments. Vendor performance worsened to the greatest extent in ten months.

Plans to price competitively, marketing initiatives, favourable tourism and forecasts of positive sales trends all boosted optimism towards the year-ahead outlook for production. Firms were at their most upbeat since April.

PMI Output Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

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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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