

News Release

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S&P Global Mexico Manufacturing PMI®

New orders and output slip into contraction in July

Key findings

Slight declines in factory orders and production

Firms trim input purchasing and headcounts

Cost inflation remains elevated

Mexican manufacturing firms reported cuts to production volumes, buying levels and headcounts at the start of the third quarter amid a lack of new work. That said, expectations towards output prospects rebounded further from May's three-and-a-half-year low as panellists identified several growth opportunities and expect that pending contracts would be signed.

Goods producers meanwhile reported another substantial increase in input costs, which they commonly attributed to peso depreciation. Growing competitive pressures, however, curbed output charge inflation.

At 49.6 in July (June: 51.1), the S&P Global Mexico Manufacturing Purchasing Managers' Index™ (PMI®) was in sub-50.0 territory for the first time in ten months. Hence, the latest reading highlighted a renewed deterioration in operating conditions, albeit one that was marginal.

The worsening performance reflected renewed declines in new orders and output, alongside a sharper reduction in employment.

Firms commented on a range of factors behind the decline in new work intakes, including adverse demand trends, projects awaiting authorisation and intense competition from China. The overall rate of contraction in new orders was, however, only slight.

July data also pointed to weaker sales abroad, with new export business in fact falling at a faster pace than total sales. In particular, the drop was associated with the postponement of several orders from the US.

Mexican manufacturers responded to the deterioration in demand conditions by trimming production levels for the first time in three months during July. The pace of reduction was marginal overall.

Meanwhile, goods producers made cuts to their purchasing activity for the first time in nine months in July due to cost

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



Source: S&P Global PMI.
Data were collected 11-23 July 2024.

Comment

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

"Manufacturing sector performance in Mexico worsened slightly at the start of the third quarter as fading new orders and heightened competition from China took their toll. The PMI Output Index ticked down in July, showing the first contraction for three months.

"The latest data signalled another month of constrained manufacturing employment, as firms cut working hours and let go of short-term staff amid subdued demand. Jobs were shed at the fastest pace since February 2022.

"The sector was again plagued by elevated cost pressures, a key factor that restricted buying levels in July, with firms attributing greater cost burdens to peso depreciation. In addition to inflation, goods producers faced obstacles such as insecurity on highways, raw material shortages at suppliers, water shortages and insufficient operational machinery. These factors negatively impacted delivery times, backlogs and inventory levels.

"Yet, buoyed by orders awaiting confirmation and expected improvements in demand, manufacturers were more confident about growth prospects."

PMI®

by S&P Global

pressures, pending orders and subdued sales. Yet, the fall in buying levels was slight overall.

Factory employment declined for the third month in a row in July, with the fall in demand reportedly leading to reduced working hours for permanent staff, voluntary resignations and the non-renewal of temporary contractors. The pace of job shedding was the strongest in just under two-and-a-half years.

Amid reports of unfavourable exchange rates, there was a further month of inflation in manufacturers' purchasing costs at the start of the third quarter. The increase was substantial by historical standards. Panellists noted higher prices for chemicals, electronic components, fabrics, foodstuff and metals.

Although some firms sought to share additional cost burdens with their clients by lifting selling prices, competitive pressures dampened overall charge inflation. The rate of increase eased to a three-month low and was slight.

Manufacturers became more optimistic about the year-ahead outlook for production, with expectations strengthening for the second consecutive month after dropping to a three-and-a-half-year low in May. Anecdotal evidence showed that firms expect improvements in market conditions, the signing of pending contracts, reduced public policy uncertainty and better demand trends in the year ahead.

Inventories of both raw materials and finished items decreased in July. Rates of depletion were broadly similar. Finally, lead times on inputs lengthened considerably once again as material shortages at vendors and unsafe highways caused delivery delays.

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@spglobal.com.

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