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IHS Markit Mexico Manufacturing PMI™

Mexican manufacturing industry stuck in contraction

Key findings

October data show sharp declines in new orders and production

Manufacturing employment decreases further

Companies become pessimistic towards the outlook

Data were collected 12-22 October 2020.

The coronavirus disease 2019 (COVID-19) pandemic continued to weigh on the Mexican manufacturing economy in October. PMITM data pointed to sharp reductions in total sales, output, input buying and employment, with the rates of contraction easing from September but still faster than any seen during the survey history prior to the pandemic.

Quicker declines were noted for stocks of both purchases and finished goods, whereas delivery times lengthened to a greater extent. The only indicator to post above the crucial 50.0 threshold was input costs – which highlighted the strongest rate of inflation in over a year – while factory gate charges were lowered further.

Despite rising from 42.1 in September to a seven-month high of 43.6 in October, the seasonally adjusted IHS Markit Mexico Manufacturing PMI pointed to a sharp deterioration in business conditions that was worse than any seen before the COVID-19 outbreak (data collection started in April 2011). The PMI has not posted above the 50.0 no-change mark for a year.

Amid reports of the COVID-19 pandemic and business closures, new work intakes decreased in October. The fall was the eighth in as many months and sharp, despite easing to the slowest since March.

New export orders likewise declined in October, taking the current sequence of reduction to eight months. Companies indicated that lower sales among international clients was the main reason restricting external demand.

In light of the COVID-19 pandemic, subdued sales and
continued...

Mexico Manufacturing PMI™

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"The latest PMI data showed that the COVID-19 pandemic continued to have a domino effect on the Mexican manufacturing industry, harming sales, production and employment during October while posing uncertainty towards the outlook.

"Although solace can be taken from slowdowns in rates of contraction for key indicators, it's worth noting that the declines remain sharper than any seen prior to the COVID-19. Also, with infection numbers rising and the possibility of containment measures being implemented, companies turned pessimistic towards growth prospects following short-lived optimism in September.

"Another concerning factor for manufacturers was a stronger increase in prices paid for inputs during October, which firms felt unable to pass on to their clients due to the current difficulties in securing sales. Not only did manufacturers absorb additional cost burdens, but they also lowered their charges again in efforts to stimulate demand."

shutdowns, Mexican manufacturing production declined in October. The fall took the current period of reduction to eight months. Although the weakest since March, the rate of contraction remained sharp.

Goods producers forecast lower production volumes in the coming 12 months, with pessimism evident in all but one of the past eight months (optimism was signalled in September). Anecdotal evidence suggested that the damaging impact of the COVID-19 pandemic on the global economy will likely curb factory output in the year ahead.

Ongoing declines in sales coupled with business closures caused another monthly reduction in manufacturing employment across Mexico, extending the current sequence of job shedding to nine months. The rate of contraction remained marked, despite softening to the slowest since March. Companies were nevertheless able to reduce their outstanding business levels in October.

Inventory trends were broadly similar, with both pre- and post-production stocks falling at accelerated rates. The latest reduction in holdings of raw materials and semi-finished items was attributed to subdued input buying. Indeed, quantities of purchases decreased for the eighth month running.

Manufacturers recorded a further increase in input prices. The rate of cost inflation was solid and the strongest since September 2019. That said, firms mostly absorbed additional cost burdens, as evident from a reduction in factory gate charges. Selling prices have now been lowered on a monthly basis for one year.

Finally, supply chains continued to be adversely impacted by the COVID-19 pandemic, with input delivery times lengthening further.

Survey methodology

The IHS Markit Mexico Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

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.

Survey dates and history

Data were collected 12-22 October 2020.

Survey data were first collected April 2011.

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit.

Contact

Pollyanna De Lima
Economics Associate Director
IHS Markit
T: +44-149-146-1075
pollyanna.delima@ihsmarkit.com
ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

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