HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Mexico Manufacturing PMI™

New orders increase markedly in July, but rate of growth at four-month low

Summary

Mexican manufacturing business conditions improved strongly in July, with greater demand often cited by survey respondents. Growth of both output and new orders remained robust, despite having weakened from June, and encouraged firms to take on more staff. Inflationary pressures meanwhile eased, with the latest increase in costs the slowest in a year.

The headline figure derived from the survey is the Manufacturing *Purchasing Managers' Index*™ (*PMI*™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 signal a deterioration. The PMI is composed of five sub-indices tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases.

After adjusting for seasonal variation, the PMI remained above the 50.0 no-change mark in July, signalling a further improvement in manufacturing business conditions. At 55.2, down from 55.9 in June, the PMI indicated a robust improvement in overall operating conditions, and was stronger than the series average.

Mexican manufacturers received a larger volume of new orders in July, continuing the trend that has been registered in each month since data collection began in April 2011. That said, the increase generally reflected greater domestic demand as new export orders rose only marginally over the month. Overall, total new work intakes increased markedly in July, but the rate of growth was nonetheless the slowest in four months.

Reflective of the increase in new orders, firms raised output and depleted their stocks of finished goods during July. Notably, inventories of post-production goods fell sharply, with the rate of decline the strongest in the 16-month series history. Concurrently, backlogs of work fell for the seventh month running, albeit only marginally.

Employment in Mexico's manufacturing sector rose further during July, with approximately 15% of panellists hiring additional staff from June. Firms generally linked job creation to greater production requirements. Employment rose strongly over the month, with the rate of growth the fastest since June 2011.

The quantity of inputs bought by manufacturers rose markedly in July, while stocks of purchases fell for the first time in six months. Suppliers' delivery times meanwhile lengthened for the thirteenth consecutive month.

Input costs faced by manufacturers rose markedly in July. Higher oil and gas prices, and unfavourable exchange rates both contributed to the latest rise in costs. However, the rate of input price inflation slowed from June to its slowest pace in a year.

Comment

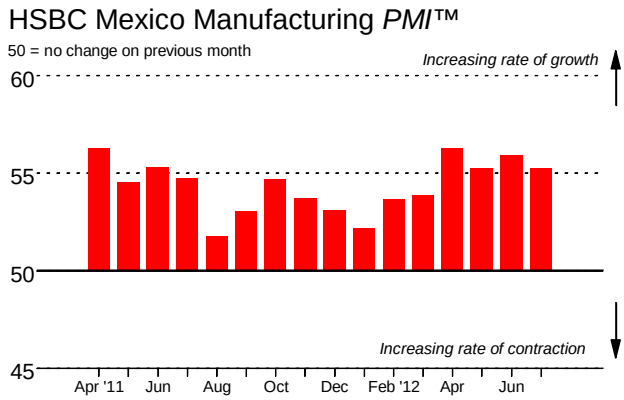
Commenting on the Mexico Manufacturing PMI™ survey, Sergio Martin, Chief Economist at HSBC in Mexico said:

"The HSBC Mexico Manufacturing PMI index remained at a strong level of 55.2 in July, slightly down from the previous month. This suggests that the manufacturing sector, which depends to a great extent on external demand, continues to show resilience to global headwinds. However, if a slowdown in the US manufacturing sector consolidates, we would expect Mexico's industrial sector to follow suit."

Key points

- Robust expansions of both output and new orders
- Rate of job creation strongest since June 2011
- Slowest increase in input costs in a year

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Mexico Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Mexican GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*™ *(PMI*™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 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. To learn more go to www.markit.com/economics