HSBC Purchasing Managers' Index™ Press Release

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HSBC Mexico Manufacturing PMI[™]

PMI signals only a modest manufacturing expansion in May

Summary

Mexican manufacturing business conditions remained weak in May, with both output and new order volumes rising only modestly since April. The rate of growth for the latter was the joint-weakest in the 26-month series history and partly reflected a renewed reduction in new export work. Concurrently, job creation eased over the month, while input price pressures picked up slightly from April's four-month low.

The headline figure derived from the survey is the Manufacturing *Purchasing Managers' Index* TM (PMI^{TM}). 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.

The seasonally adjusted HSBC Mexico Manufacturing PMI was unchanged in May, remaining at the joint-lowest reading in the 26-month series history. Posting at 51.7 for the second month running, the PMI was consistent with only a modest improvement in manufacturing business conditions in Mexico.

Manufacturing production in Mexico rose further in May, and at a slightly faster rate than in April. However, the rate of output growth was only modest and weaker than the series average. Firms largely commented on higher new order requirements, which rose at the joint-slowest pace since data collection began in April 2011. The weak trend in total new work partly reflected a renewed decline in new export orders.

Outstanding business at monitored companies fell further during May, with the rate of backlog depletion strong overall. Stocks of finished goods were also reduced for the third month running, but to a lesser extent than in April.

The quantity of inputs bought by manufacturers increased at a sharply reduced rate in May. Inventories of pre-production goods were meanwhile depleted for the third consecutive month and at the strongest pace since data collection began in April 2011.

Employment in Mexico's manufacturing sector continued to rise in May, with one-in-ten firms hiring additional staff over the month. The rate of job creation nonetheless eased since April.

Firms reported higher cost burdens in the latest survey period, with raw materials including steel and oil particularly mentioned by panellists as having increased in price. Overall, the rate of inflation was solid, but much weaker than the series average. Meanwhile, output

charges were reduced for the second month running in May, albeit only marginally.

Comment

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

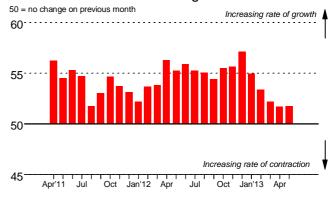
"The HSBC Mexico Manufacturing PMI remained for the second month in a row at 51.7 in May. This is the lowest reading since August 2011, suggesting that weakness in the manufacturing sector will prevail in the second quarter. Consequently, we have revised our GDP growth forecast for this year to 2.9% from 3.2% expected previously."

Key points

- PMI remains at lowest level since data collection began in April 2011
- Output growth quickens, but only slightly
- Rate of job creation eases from April's five-month high

Historical Overview

HSBC Mexico Manufacturing PMI™



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.

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