HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Mexico Manufacturing PMI™

PMI signals first deterioration in business conditions in 28-month series history

Summary

For the first time since data collection began in April 2011, Mexican manufacturing business conditions deteriorated in July, albeit only marginally. Output contracted over the month, partly reflecting a stagnant trend for new orders, and this in turn led to little-change in employment. Firms meanwhile attempted to win new business by offering price discounts to clients, despite the rate of input cost inflation quickening to a five-month high.

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.

At 49.7 in July, down from 51.3 in June, the seasonally adjusted HSBC Mexico Manufacturing PMI fell below the 50.0 no-change mark, signalling a deterioration in operating conditions. This was the first sub-50 reading in the 28-month series history, but the headline index was consistent with only a marginal contraction.

In July, the volume of new orders received by Mexican manufacturers was broadly the same as in June. The stagnant trend contrasted with growth one month previously, and partly reflected weak client demand. Notably, new export orders fell solidly and for the third month running.

Reflective of the easing new order trend, output fell modestly in July, ending a sequence of growth seen in each month since data collection began in April 2011. Backlogs of work also declined, and at the strongest rate since last September.

The quantity of purchases bought by manufacturers was unchanged in July, while stocks of purchases were depleted for the fifth consecutive month. Concurrently, suppliers' delivery times lengthened, albeit only slightly, as some vendors had difficulty in sourcing key raw materials.

Manufacturing employment in Mexico was little-changed from June, with the majority of panellists (almost 85%) keeping their staff numbers unchanged in July. This was the weakest employment trend for a year-and-a-half.

Firms reported greater input costs in July, with a number of companies citing higher raw material prices and unfavourable exchange rates. Overall, the rate of inflation was the strongest since February, but remained weaker than the series average. Meanwhile, manufacturers lowered their selling prices for the fourth month running in a bid to win new business.

Comment

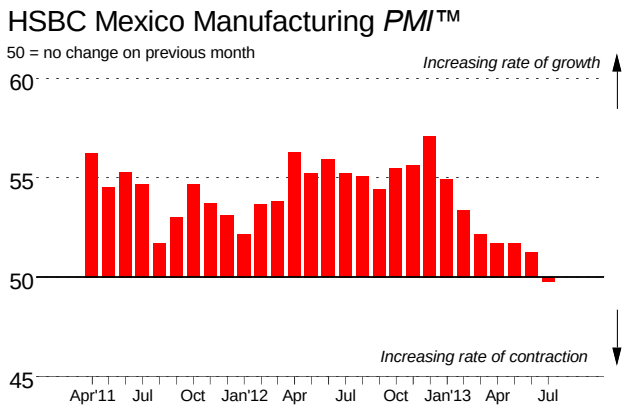
Commenting on the Mexico Manufacturing *PMI*™ survey, Sergio Martin, Chief Economist at HSBC in Mexico said:

"The HSBC Mexico Manufacturing PMI fell to 49.7 in July from 51.3 in June. Since the series began, this is the first time in which the index lies below the 50-point breakeven level. This suggests that manufacturing will keep on struggling to grow in 3Q13. However, the recent increase in non-oil exports represents a glimmer of hope for the sector."

Key points

- PMI falls below 50.0 no-change mark in July
- Output falls modestly, while new orders stagnate
- Employment little-changed from June

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.

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