

HSBC Mexico Manufacturing PMI™

Manufacturing output contracts in October

Summary

Mexico's manufacturing sector continued to stagnate in October, with business conditions improving only slightly since September. Although new orders continued to rise at a modest pace, both output and employment fell over the month. Notably, this was the first indication of net job losses since data collection began in April 2011.

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.

The HSBC Mexico Manufacturing PMI registered only slightly above the 50.0 no-change mark in October. At 50.2, up marginally from 50.0 in September, the headline index indicated only a slight improvement in manufacturing operating conditions.

Incoming new work at Mexican manufacturers increased for the third consecutive month in October. Panellists largely linked this to greater demand and new client wins. New export orders also rose over the month, albeit fractionally. Overall, the latest increase in total new orders was modest, but remained much weaker than that at the beginning of the year.

Meanwhile, production was lower than in September, with panellists attributing this to weak market conditions. Notably, this was only the second instance where output had declined since data collection began in April 2011. Nonetheless, stocks of finished goods increased, and at a slightly faster pace, while backlogs of work were depleted.

Employment similarly fell in the latest survey period. Although the rate of contraction was marginal, it was the first indication of job losses in the 31-month series history.

The quantity of inputs bought by manufacturers was unchanged in October, while stocks of purchases rose marginally. The increase in input inventories was the first in eight months and the strongest since January. Concurrently, suppliers' delivery times lengthened over the month, as some vendors experienced problems with importing key raw materials.

Input costs faced by manufacturing firms increased in October, with this reflecting higher raw material prices and unfavourable exchange rates. Overall, the rate of inflation was solid, but the slowest since June. In

contrast, output charges fell for the seventh consecutive month, with a number of companies citing recent promotions.

Comment

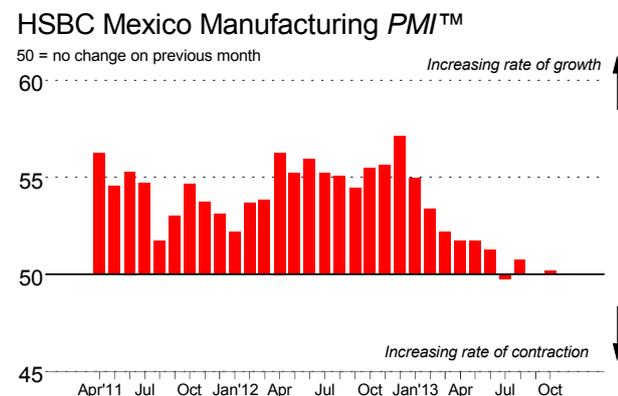
Commenting on the Mexico Manufacturing PMI™ survey, Sergio Martin, Chief Economist at HSBC in Mexico said:

"The HSBC Mexico Manufacturing PMI remained practically unchanged at 50.2 in October, slightly above the neutral level of 50.0. This result suggests that the manufacturing sector will continue to struggle to grow in the coming months. Recent figures on manufacturing production suggest incipient signals of recovery for the sector. However, the impact from the natural disasters that affected some productive activities in Mexico and the government shutdown in the US may curb such recovery."

Key points

- PMI signals little-change in manufacturing business conditions
- Production declines, despite modest increase in new orders
- Employment falls for first time in 31-month series history

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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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

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