

HSBC Mexico Manufacturing PMI™

Further marked rise in manufacturing new orders in May

Key findings:

- New order growth strengthens to its fastest pace in 13 months
- Output increases strongly, but at a three-month low
- Solid rate of job creation

May data indicated a further strong improvement in Mexican manufacturing business conditions, with new orders increasing at the fastest rate since April 2011. Output also rose strongly, but at a reduced pace. Concurrently, employment increased solidly in May, while the rate of input price inflation eased since April.

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 registered 55.2 in May and signalled a further strong improvement in Mexican manufacturing business conditions. Although down from 56.3 in April, suggesting a weaker rate of expansion, the PMI remained above its series average of 54.2.

Mexican manufacturers received a larger volume of new orders in May, with a number of firms citing greater demand and new client wins. Moreover, new export orders increased for the sixth consecutive month, albeit only marginally. Overall, total incoming new work rose markedly since April, with the rate of growth the

strongest in 13 months.

Although having eased to a three-month low, output rose strongly in May. Almost 31% of panellists reported higher production, and largely linked this to greater new order requirements. Stocks of finished goods meanwhile increased only marginally, and backlogs of work fell for the fifth consecutive month.

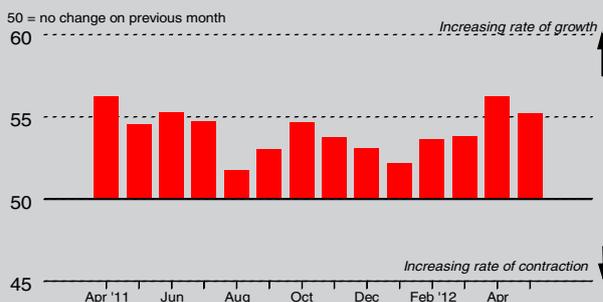
The quantity of inputs purchased by manufacturers increased markedly in May. Stocks of purchases also rose over the month, but this was to a sharply reduced rate compared with April.

Suppliers' delivery times lengthened further in May, with some vendors struggling to source some raw materials. Notably, the latest lengthening of lead times was strong and to the greatest extent in 13 months.

Employment in Mexico's manufacturing sector rose solidly during the latest survey period. Approximately 14% of panellists hired additional staff in May, with the rate of job creation solid overall.

A further marked rise in input costs was reported by firms in May. Raw materials were particularly mentioned as having increased in price. Firms passed parts of their greater cost burdens on to clients by raising their selling prices. However, the latest increase in output charges was notably lower than that for input costs.

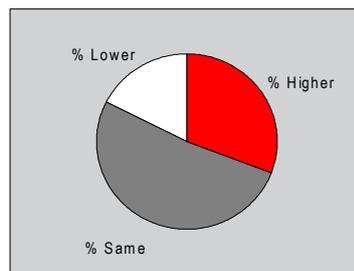
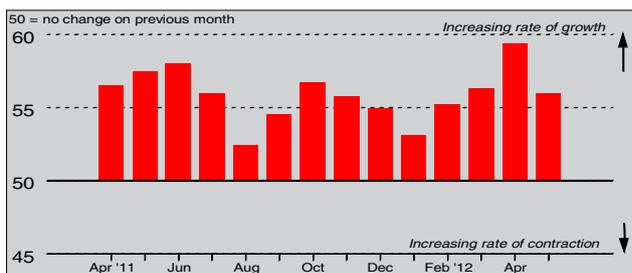
HSBC Mexico Purchasing Managers' Index (PMI™)



The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

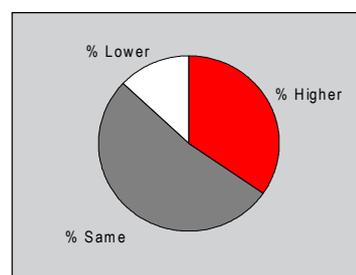
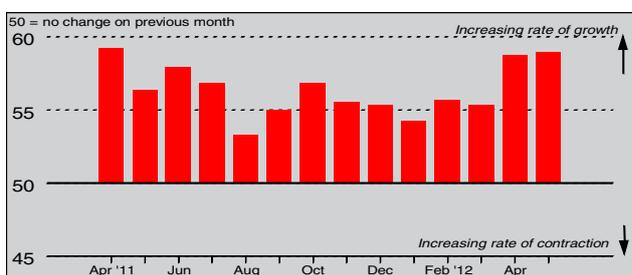
Q. Please compare your production/output this month with the situation one month ago.



Production across the Mexican manufacturing sector increased in May, as signalled by the seasonally adjusted Output Index registering above the 50.0 no-change mark. Output has increased in each month since data collection began in April 2011, with firms generally attributing the latest rise to larger new order volumes. The index indicated a strong rise in output during May, which was also broadly in line with the trend for the series. However, having fallen over three points from April's survey-high, the index suggested the weakest rate of growth since February.

New Orders Index

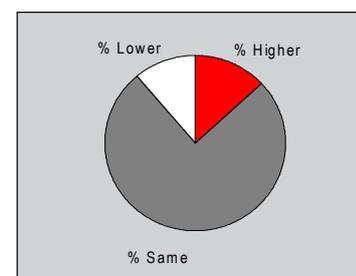
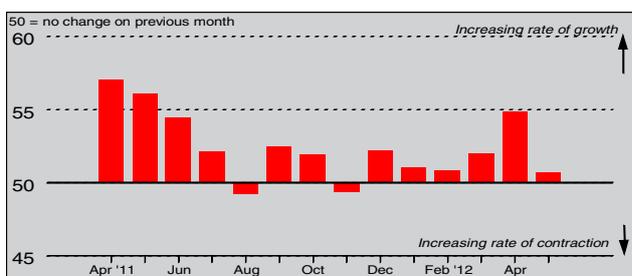
Q. Please compare the level of new orders received (Mexico and export) this month with the situation one month ago.



Mexican manufacturers received a larger volume of new orders in May. Approximately 35% of surveyed firms reported an increase in incoming new work compared with one month earlier, while exactly 13% registered a reduction. Concurrently, the overall rate of new order growth was marked and the fastest since April 2011. Where an increase in new work was reported, monitored companies generally commented on greater demand and new client wins.

New Export Orders Index

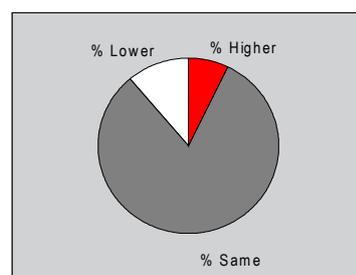
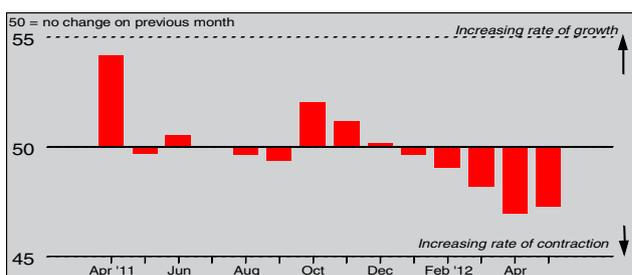
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After adjusting for seasonal variation, the volume of new export orders at Mexican manufacturing companies increased for the sixth consecutive month in May. Panellists particularly mentioned that improved economic conditions in the U.S. contributed to the overall rise in new work from abroad. That said, the latest increase in new export orders was only marginal, with the seasonally adjusted New Export Orders Index only slightly above the neutral 50.0 threshold.

Backlogs of Work Index

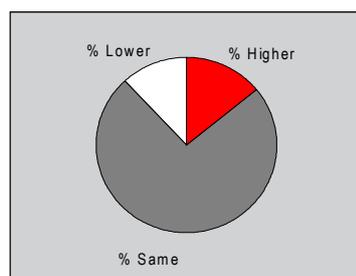
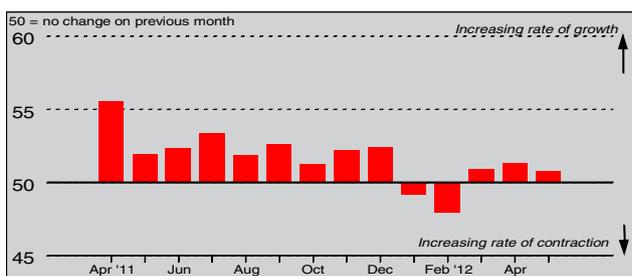
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at companies working in Mexico's manufacturing sector fell for the fifth consecutive month in May. This was signalled by the seasonally adjusted Backlogs of Work Index remaining below the 50.0 no-change mark that separates an increase in work-in-hand from a reduction. Approximately 11% of firms reported lower backlogs of work compared with one month earlier, with the rate of decline solid overall.

Stocks of Finished Goods Index

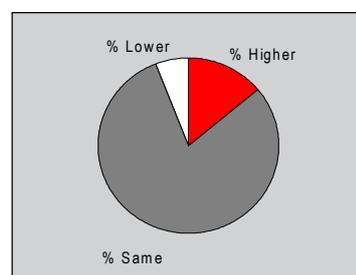
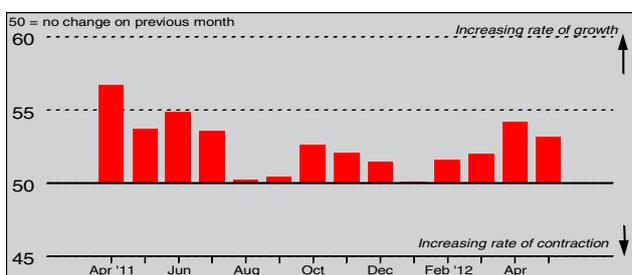
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Reflective of the increase in client demand, Mexican manufacturing companies increased their holdings of post-production goods during May. Stocks of finished goods held by panellists has now increased for the third consecutive month. However, the latest rise was only marginal and the weakest in the current sequence of growth.

Employment Index

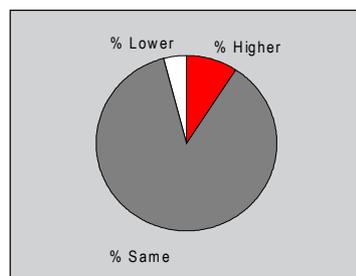
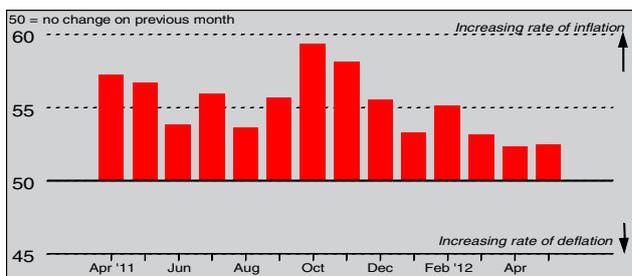
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in Mexico increased further in May. Almost 14% of surveyed firms hired additional staff over the month (while approximately 6% reduced their headcounts), and largely linked this to greater production requirements. Overall, the rate of job creation was solid and stronger than the series average, but nonetheless eased since April, as indicated by a lower seasonally adjusted Employment Index reading.

Output Prices Index

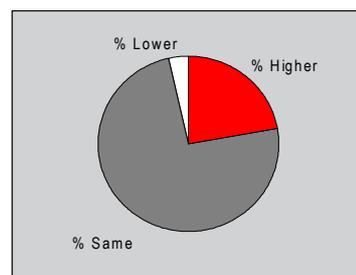
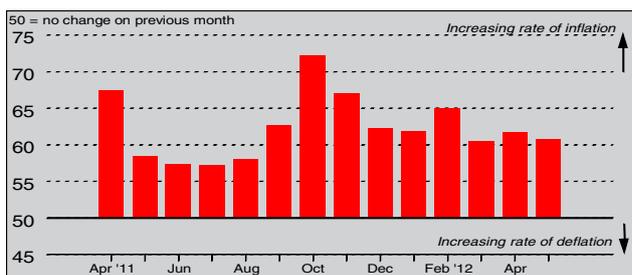
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index remained above the 50.0 no-change mark in May, signalling a further rise in output charges. Higher factory gate prices have been recorded in each month since data collection began in April 2011. Firms that raised their selling prices in May (approximately 9%) commented that greater cost burdens were generally passed on to clients.

Input Prices Index

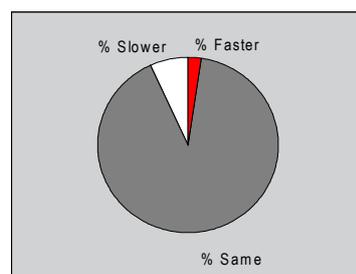
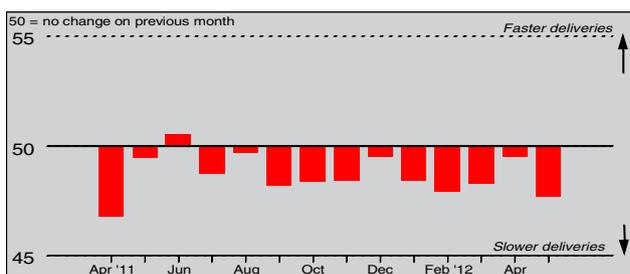
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



May data indicated a further marked rise in input costs, with raw materials particularly mentioned as having increased in price since April. A number of monitored companies also reported that unfavourable foreign exchange rates contributed to the increase in cost burdens during the latest survey period. Nonetheless, the rate of input price inflation eased since April and was slower than the series average.

Suppliers' Delivery Times Index

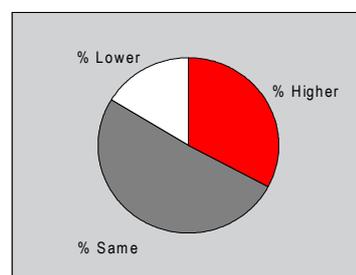
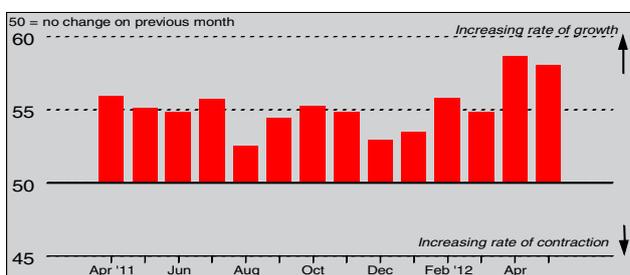
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on inputs lengthened further during May, as indicated by the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 no-change threshold. Anecdotal evidence suggested that a number of vendors struggled to source raw materials during the latest survey period, while some suppliers also faced production and transportation delays. The latest deterioration in vendors' performance was strong, with the index at its lowest level since April 2011.

Quantity of Purchases Index

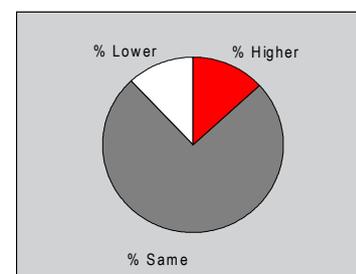
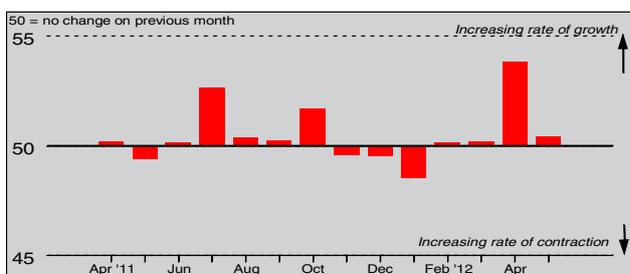
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The quantity of inputs purchased by Mexican manufacturers rose markedly in May, with the rate of increase only slightly slower than the survey-high recorded in April. Almost 33% of firms bought a larger amount of pre-production goods (while 16% reduced their purchasing activity), and generally linked this to greater production requirements.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input inventories increased for the fourth month running during May. Monitored companies that reported larger stocks of purchases generally attributed this to the increases in new orders. That said, stocks of pre-production goods were only accumulated at a marginal rate in May, with the seasonally adjusted Stocks of Purchases Index falling sharply from April to a level only slightly above the neutral 50.0 threshold.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Mexico 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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