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# HSBC Mexico Manufacturing PMI™

PMI signals another robust improvement in manufacturing business conditions

#### **Key findings:**

- · Marked increases in both output and new orders during June
- · Strongest rate of job creation in a year
- · Input price inflation at four-month high

June data suggested a further robust improvement in Mexican manufacturing business conditions, with both output and new orders rising markedly since May. Manufacturers also hired additional staff, with the rate of job creation the fastest since June 2011. Meanwhile, inflationary pressures intensified, with the rate of input price inflation at a four-month high.

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

After adjusting for seasonal variation, the PMI rose from 55.2 to 55.9 in June, and signalled a strong improvement in Mexican manufacturing business conditions. Moreover, an average PMI reading of 55.8 over the second quarter as a whole was the highest since data collection began in 2011 Q2.

Mexican manufacturers received a larger volume of new work in June, with firms generally linking this to greater demand and new client wins. New export orders also increased for the seventh straight month. Although total new orders rose markedly since

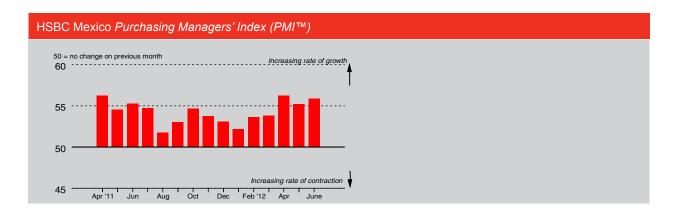
May, the rate of growth slowed to a three-month low.

In line with the marked rise in new order requirements, firms raised production during the latest survey period. Approximately 38% of respondents reported higher output, with the overall expansion stronger than in the proceeding month. Backlogs of work were meanwhile depleted for the sixth consecutive month, and stocks of finished goods rose only marginally.

The quantity of inputs bought by panellists rose sharply in June, with the latest increase the strongest in the 15-month series history. Higher purchases were partly used to build input inventories, with stocks rising solidly over the month. Concurrently, suppliers' delivery times lengthened further as some vendors were working with larger backlogs.

Employment in Mexico's manufacturing sector rose further in June, with firms largely citing recent output growth. Overall, the rate of job creation was strong and the fastest since June 2011.

Input costs rose again in June, with higher raw materials prices and unfavourable exchange rates often commented on. The rate of input price inflation was marked and the strongest since February. Firms passed their greater cost burdens on to clients by raising their selling prices. Nevertheless, the increase in output charges was much weaker than the rise in input costs.



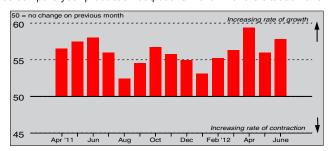
The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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 expending. 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.

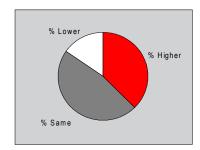




# **Output Index**

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

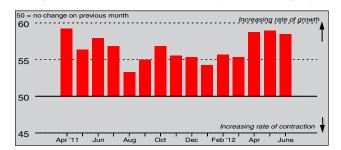


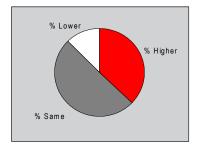


The seasonally adjusted Output Index remained above the 50.0 no-change mark in June, signalling a further rise in manufacturing production in Mexico. Approximately 38% of surveyed firms reported an increase in output and generally linked this to larger new orders. A number of monitored companies also attributed higher production to new product lines. Overall, the index indicated a marked rise in output in June, with the rate of growth strengthening since May.

#### New Orders Index

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

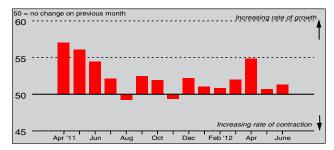


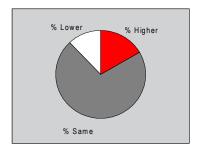


The volume of new orders received by Mexican manufacturers increased in June, continuing the trend that has been registered in each month since data collection began in April 2011. Panellists that reported a rise in new work intakes (approximately 37%), generally attributed this to greater demand and new client wins. Incoming new work rose markedly since May, despite the rate of growth slowing to its weakest pace in three months.

# New Export Orders Index

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



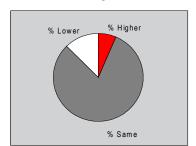


Mexican manufacturing companies received a larger volume of new export orders in June, as indicated by the seasonally adjusted New Export Orders Index posting above the 50.0 no-change mark. Panellists particularly mentioned an increase in new work from the U.S. and other Central American countries. Although the index increased since May, suggesting a stronger rate of expansion, it nonetheless signalled a modest rise in new export orders in June.

# Backlogs of Work Index

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

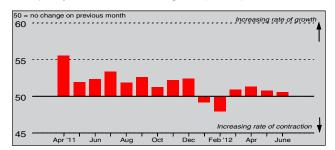


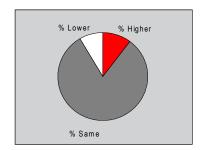


Outstanding business at Mexican manufacturing firms declined for the sixth consecutive month in June. Approximately 12% of survey respondents reported a lower level of work-in-hand compared with May, while almost half that many recorded an increase. Overall, the latest depletion of backlogs of work was solid, with the rate of decline fractionally weaker than that registered in the previous month.

#### Stocks of Finished Goods Index

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

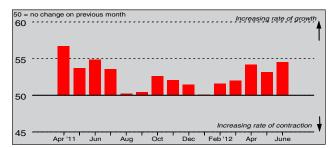


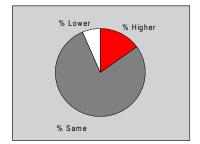


After adjusting for seasonal variation, Mexican manufacturers held a larger amount of finished goods as stock during June. Anecdotal evidence provided by panellists suggested that greater client demand was the main factor behind the latest stock accumulation. Inventories of post-production goods have increased in each of the past four months, but 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.

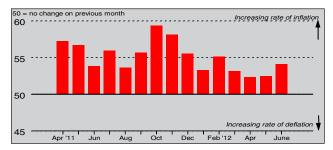


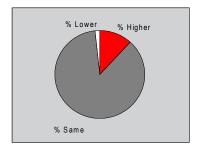


Reflective of recent increases in production, employment in Mexico's manufacturing sector rose further in June. This was signalled by the seasonally adjusted Employment Index remaining above the 50.0 no-change threshold that separates job creation from losses. Exactly 15% of monitored companies hired additional staff over the month, while 7% reduced their workforces. Overall, employment growth was strong and the fastest in a year.

# **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.

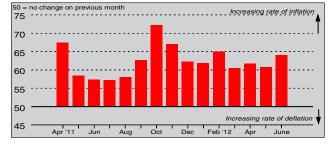


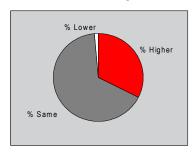


The seasonally adjusted Output Prices Index registered above the 50.0 no-change mark in June, signalling a further rise in average selling prices. Firms have raised their output charges in each month since data collection started 15 months ago. A number of companies commented that larger cost burdens were passed on to clients, while others raised their charges due to unfavourable exchange rates. Overall, the rate of output price inflation was strong and the fastest in four months.

# Input Prices Index

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

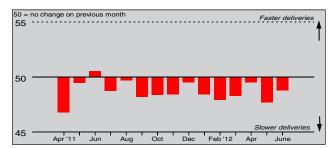


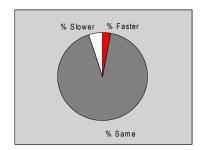


Input costs faced by Mexican manufacturers rose further in June. Raw materials were particularly mentioned by panellists as having increased in price over the month, while a number of respondents also commented on unfavourable exchange rates. Approximately 32% of firms reported larger cost burdens in June, with the rate of input price inflation marked and the sharpest since February.

#### Suppliers' Delivery Times Index

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

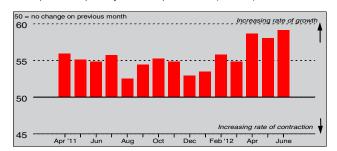


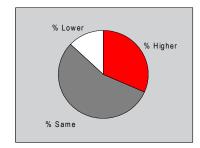


Firms reported a further lengthening of suppliers' delivery times in June. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change mark that separates an increase in lead times from a decline. A number of monitored companies suggested that vendors were working with larger backlogs during June. The latest deterioration in vendors' performance was moderate, but nonetheless to a lesser extent than in May.

#### Quantity of Purchases Index

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





June data signalled a further sharp rise in the quantity of inputs bought by Mexican manufacturers. Monitored companies that reported an increase in buying activity (approximately 32%) generally cited higher production requirements during the latest survey period. Notably, purchases rose at a marked pace in June, with the rate of increase the strongest in the 15-month series history.

# Stocks of Purchases Index

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





Input inventories at Mexican manufacturing companies increased for the fifth successive month in June. Moreover, with the seasonally adjusted Stocks of Purchases Index rising approximately three points from the proceeding month, the latest accumulation of stocks was solid and the second-strongest in the 15-month series history. Where higher purchases inventories were reported, panellists generally linked this to recent increases in new orders.

#### 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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