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HSBC Mexico Manufacturing PMI™

New orders increase markedly in July, but rate of growth at four-month low

Key findings:

- Robust expansions of both output and new orders
- Rate of job creation strongest since June 2011
- Slowest increase in input costs in a year

Mexican manufacturing business conditions improved strongly in July, with greater demand often cited by survey respondents. Growth of both output and new orders remained robust, despite having weakened from June, and encouraged firms to take on more staff. Inflationary pressures meanwhile eased, with the latest increase in costs the slowest in a year.

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 remained above the 50.0 no-change mark in July, signalling a further improvement in manufacturing business conditions. At 55.2, down from 55.9 in June, the PMI indicated a robust improvement in overall operating conditions, and was stronger than the series average.

Mexican manufacturers received a larger volume of new orders in July, continuing the trend that has been registered in each month since data collection began in April 2011. That said, the increase generally reflected greater domestic demand as new

export orders rose only marginally over the month. Overall, total new work intakes increased markedly in July, but the rate of growth nonetheless slowed to its weakest pace in four months.

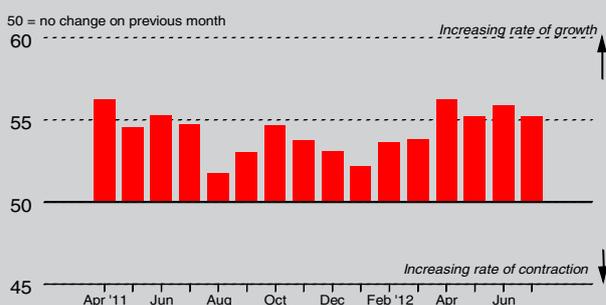
Reflective of the increase in new orders, firms raised output and depleted their stocks of finished goods during July. Notably, inventories of post-production goods fell sharply, with the rate of decline the strongest in the 16-month series history. Concurrently, backlogs of work fell for the seventh month running, albeit only marginally.

Employment in Mexico's manufacturing sector rose further during July, with approximately 15% of panellists hiring additional staff from June. Firms generally linked job creation to greater production requirements. Employment rose strongly over the month, with the rate of growth the fastest since June 2011.

The quantity of inputs bought by manufacturers rose markedly in July, while stocks of purchases fell for the first time in six months. Suppliers' delivery times meanwhile lengthened for the thirteenth consecutive month.

Input costs faced by manufacturers rose markedly in July. Higher oil and gas prices, and unfavourable exchange rates both contributed to the latest rise in costs. However, the rate of input price inflation slowed from June to its slowest pace in a year.

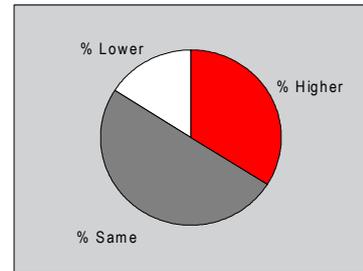
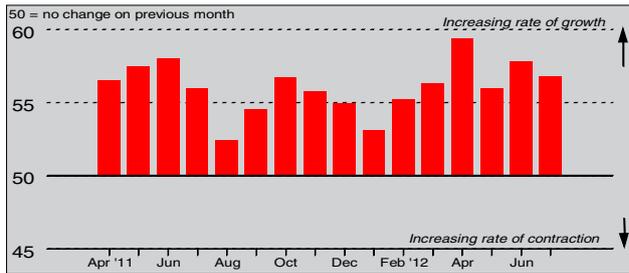
HSBC Mexico Purchasing Managers' Index (PMI™)



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

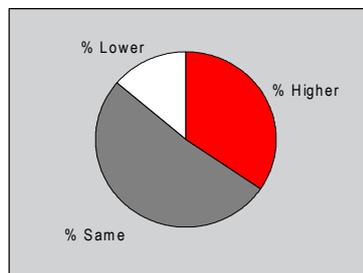
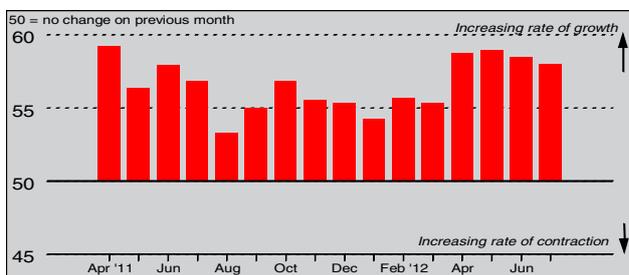
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Mexico increased further in July, continuing the trend that has been registered in each month since data collection began in April 2011. Despite having eased from that recorded in June, the rate of growth remained strong and above the series average. Approximately 34% of surveyed firms reported an increase in production compared with one month previously, and generally linked this to greater demand and new client wins.

New Orders Index

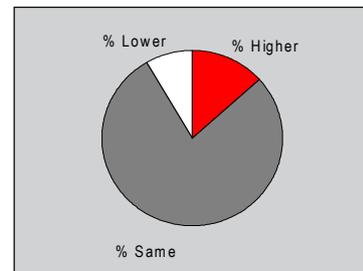
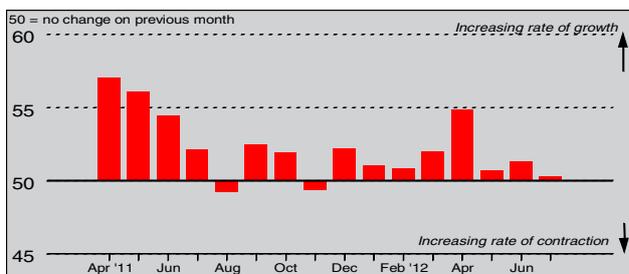
Q. Please compare the level of new orders received (Mexico and export) this month with the situation one month ago.



The volume of new orders received by Mexican manufacturing companies increased in July, as signalled by the seasonally adjusted New Orders Index remaining above the 50.0 no-change mark. Firms that reported an increase in new work (approximately 35%) generally commented on greater client demand. Overall, the index indicated a marked expansion of new orders in July, but having fallen for the second month running, it nonetheless signalled the slowest rate of growth since March.

New Export Orders Index

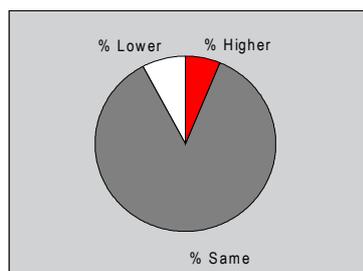
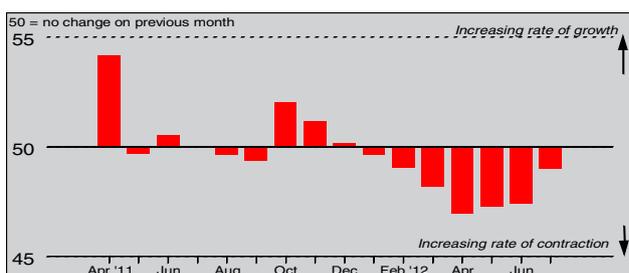
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted above the 50.0 no-change mark in July, signalling an increase in the volume of new export orders placed at Mexican manufacturers. However, the latest index reading was only slightly above the neutral threshold, suggesting only a marginal increase in new export work. Anecdotal evidence provided by panellists indicated that greater demand from the US was partly offset by weaker sales from Europe.

Backlogs of Work Index

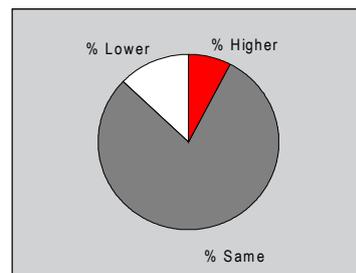
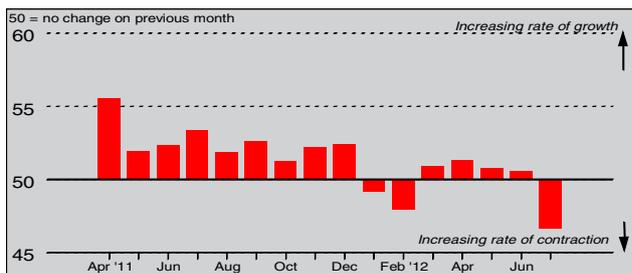
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Mexican manufacturing firms decreased for the seventh consecutive month in July. Almost 8% of respondents reported a reduction in backlogs of work during the latest survey period, while approximately 6% recorded an increase. Overall, work-in-hand (but not yet completed) fell only marginally in July, with the rate of backlog depletion the weakest in six months.

Stocks of Finished Goods Index

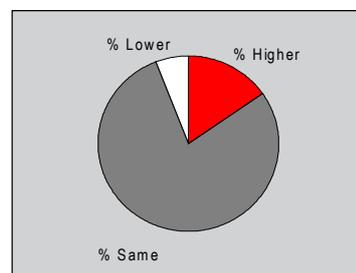
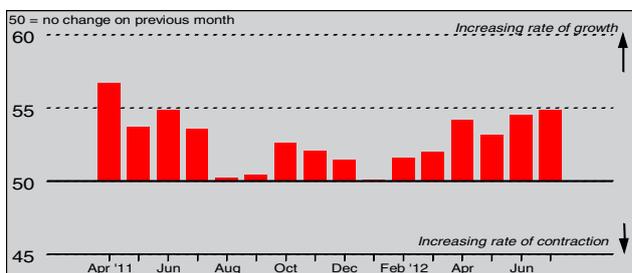
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the previous four months of stock accumulation, monitored companies reduced their inventory holdings of finished goods in July. A number of panellists commented that existing stocks of post-production goods were used to fulfil some new order requirements during the latest survey period. Notably, the seasonally adjusted Stocks of Finished Goods Index fell almost four points to its lowest level in the 16-month series history, and indicated a strong depletion of inventories from one month previously.

Employment Index

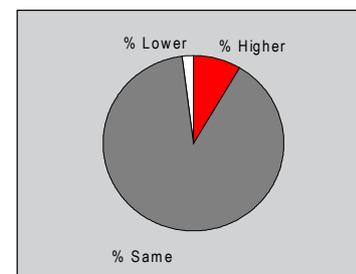
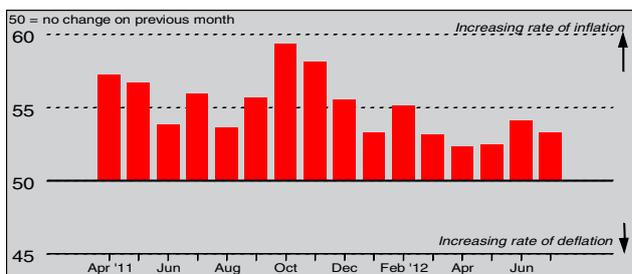
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in Mexico's manufacturing sector increased further in July, continuing the trend that has been registered in each month since data collection started in April 2011. Moreover, the rate of job creation quickened to a 13-month high and was strong overall. Approximately 15% of surveyed firms hired additional staff from June (while 6% reduced their headcounts), with the increase in production requirements often cited.

Output Prices Index

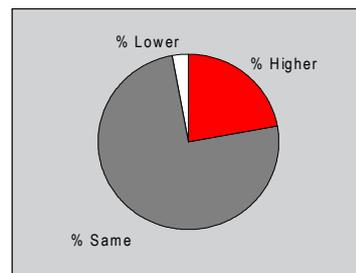
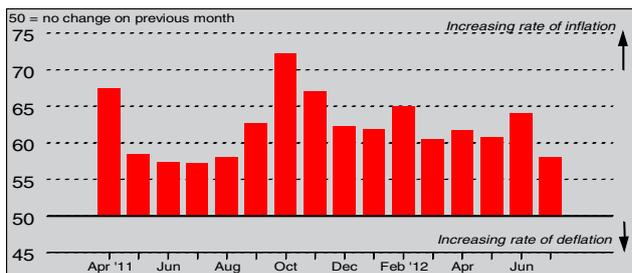
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Firms working in Mexico's manufacturing sector raised their selling prices in July. Higher output charges have been reported in each month since data collection began in April 2011. Panellists that raised their output prices generally commented on passing higher raw material costs on to clients. Moreover, a number of monitored companies also suggested that higher output charges partly reflected recent exchange rate fluctuations.

Input Prices Index

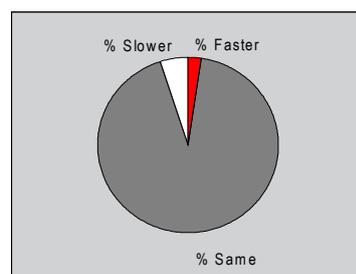
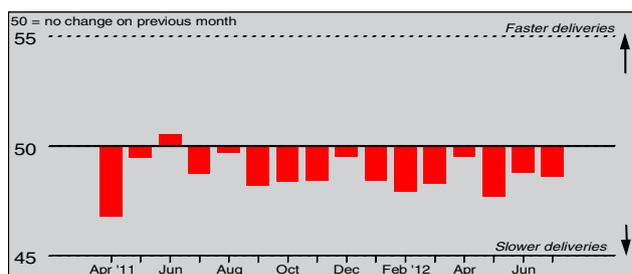
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by Mexican manufacturers increased in July, with approximately 22% of surveyed firms reporting larger cost burdens compared with one month previously. Oil and gas as well as raw materials were all reported to have increased in price by panellists. A number of monitored companies also commented that unfavourable exchange rates also added to the rise in costs during the latest survey period. Although the rate of input price inflation was marked, it nonetheless slowed to its weakest pace in a year.

Suppliers' Delivery Times Index

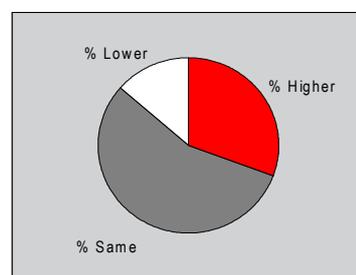
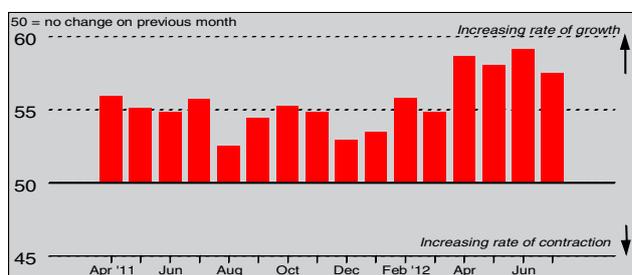
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in July, indicating a further deterioration in vendor performance. Delays in shipping and larger backlogs of work at suppliers were often cited by survey respondents when explaining the latest lengthening of delivery times. Lead times increased modestly in July, and to a slightly greater extent than in June, as indicated by the corresponding index falling slightly over the month.

Quantity of Purchases Index

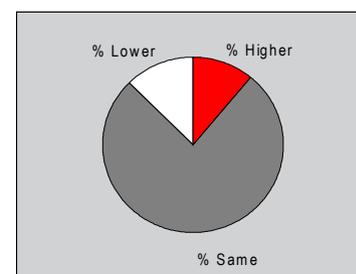
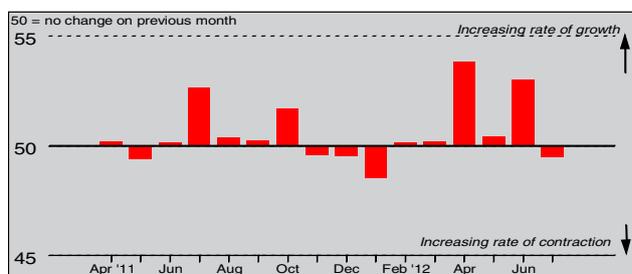
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of higher production requirements, the quantity of inputs bought by Mexican manufacturers increased further during July. Approximately 31% of respondents purchased a larger amount of pre-production goods, compared with 14% reduced their buying activity. Overall, purchases increased strongly during the latest survey period, albeit the rate of growth was the weakest in four months.

Stocks of Purchases Index

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



After adjusting for seasonal variation, Mexican manufacturers reduced their stocks of purchases during July. This was indicated by the Stocks of Purchases Index posting below the 50.0 no-change threshold that separates inventory accumulation from depletion. Although input inventories fell only marginally in July, this was the first fall in six months and in contrast to solid growth recorded one month previously.

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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