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HSBC Mexico Manufacturing PMI™

Marked rise in new orders supports further output growth in October

Key findings:

- New orders increase at fastest pace since May
- Output growth remains strong, despite easing slightly in the month
- Input price inflation weakest in 19-month series history

October data signalled a strong improvement in Mexican manufacturing business conditions, with both output and new orders rising markedly from September. Firms generally cited greater client demand and recent new product launches. Supply chain pressures meanwhile remained muted, as suppliers' delivery times lengthened only marginally in October, and input prices increased at the weakest rate since data collection began in April 2011.

The headline figure derived from the survey is the Manufacturing <code>Purchasing Managers' Indextm (PMItm)</code>. 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 headline PMI posted 55.5 in October, signalling a strong improvement in Mexican manufacturing business conditions. Moreover, having risen from 54.4 in September, the PMI indicated the fastest rate of growth for four months.

Mexican manufacturers received a larger volume of new orders in October, with panellists generally attributing this to greater

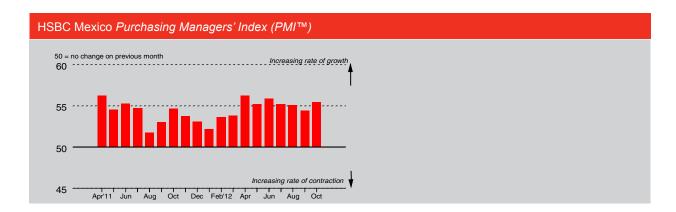
demand and recent new product launches. Both domestic and export orders increased over the month, with the overall rise in new work marked and the greatest since May.

Firms stepped up production and increased their stocks of finished goods in response to recent new order growth. Backlogs of work meanwhile were depleted further, albeit the latest decline was weaker than that recorded one month previously.

Manufacturing employment continued to increase in October, with approximately 15% of firms hiring additional staff since September. Overall, the rate of job creation was solid and stronger than the series average.

Input buying increased markedly in the month, with firms largely linking this to greater new order requirements. Stocks of purchases also rose, with the rate of accumulation the fastest since June. Nonetheless, suppliers' delivery times lengthened only slightly in October.

Input costs continued to increase in the latest survey period, with a wide range of raw materials reported as having risen in price. That said, the rate of inflation slowed to its weakest pace in the 19-month series history. Concurrently, firms passed on higher cost burdens to clients by raising their selling prices in October, but the rate of increase also weakened since September.



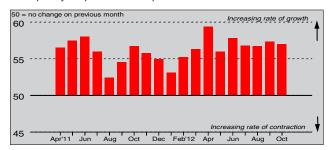
The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

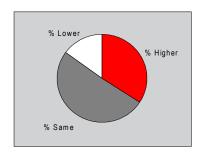




Output Index

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

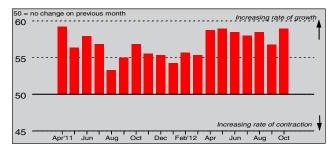


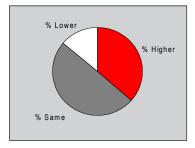


Mexican manufacturers reported a further increase in manufacturing output in October. Higher production levels have been reported in each month since data collection started in April 2011. Approximately 34% of surveyed firms recorded an increase in output (while 15% registered a decline), and generally linked the expansion to larger new order volumes. The seasonally adjusted Output Index signalled a strong month-on-month rise in output but, having fallen slightly over the month, the rate of growth eased.

New Orders Index

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

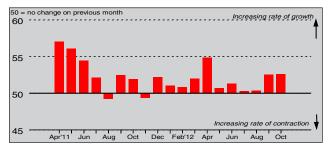


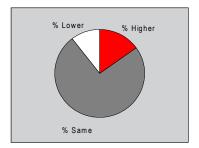


The seasonally adjusted New Orders Index indicated a marked rise in incoming new work at Mexican manufacturing companies in October. Having risen from the six-month low recorded in September, the index was one of the highest readings in the 19-month series history. Firms that reported an increase in new orders (approximately 37%) largely attributed growth to new product launches and greater client demand.

New Export Orders Index

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

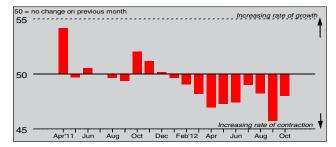


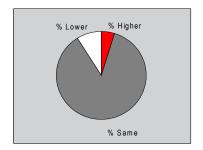


The volume of new export orders received by manufacturing firms in Mexico increased for the eleventh consecutive month in October. Companies that recorded a rise in new work intakes from export markets generally commented on the launch of new products and greater demand, particularly from the US. Overall, the latest rise in new export orders was moderate, with the rate of increase unchanged from that reported for September.

Backlogs of Work Index

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

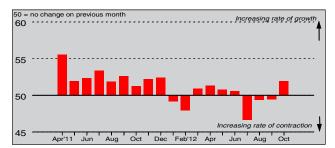


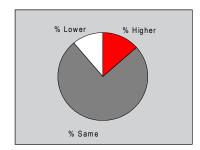


Continuing the trend that has been registered in each month of 2012 so far, outstanding business at Mexican manufacturing companies fell further during October. Exactly 9% of firms reported a depletion of backlogs of work over the month, while approximately 5% registered an increase in work-in-hand. Overall, the level of outstanding business fell modestly in October, although the rate of contraction had eased since September.

Stocks of Finished Goods Index

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

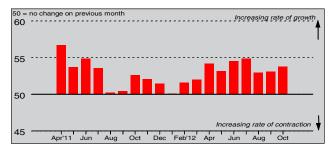


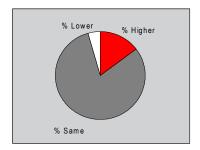


The seasonally adjusted Stocks of Finished Goods Index posted above the 50.0 no-change mark in October, signalling an increase in finished goods inventories. This was in contrast to the previous three months of stock depletion. Anecdotal evidence provided by panellists suggested that the increase in stocks reflected recent increases in new orders. Overall, the index was the highest since December 2011 and was consistent with a moderate rise in inventory levels.

Employment Index

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

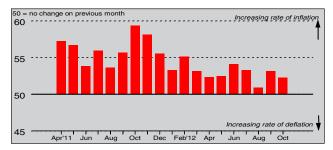


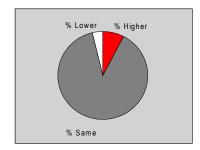


Employment in Mexico's manufacturing sector increased further during October, with approximately 15% of firms hiring additional staff since September. The increase in new order volumes was generally cited by monitored companies as the main factor behind the rise in employee numbers. The seasonally adjusted Employment Index has risen for two successive months to a level above the series average, and signalled a solid rate of job creation in October.

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.

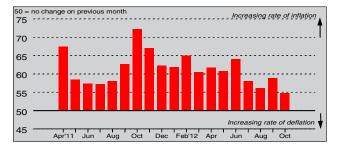


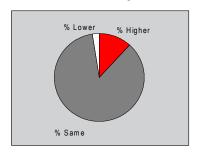


Average selling prices increased in October, as has been the case in each month since data collection began in April 2011. A number of firms that raised their output charges over the month commented on passing higher raw material costs on to clients, while other companies attributed price increases to the launch of new products. That said, the seasonally adjusted Output Prices Index remained below the series average and, having fallen from one month previously, signalled a weaker rate of inflation.

Input Prices Index

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

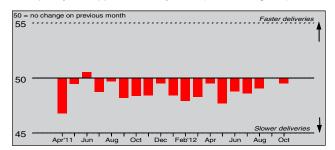


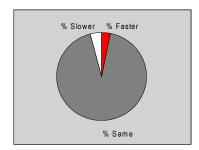


The seasonally adjusted Input Prices Index remained above the 50.0 no-change mark in October. A wide range of raw materials were mentioned as having risen in price in the latest survey period, with monitored companies particularly highlighting food items. However, the index fell to its lowest reading in the 19-month series history and thereby signalled a relatively subdued rise in average input costs.

Suppliers' Delivery Times Index

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

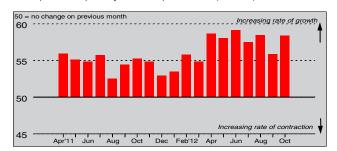




Following the no change reported in September, suppliers' delivery times lengthened in October. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index returning below the 50.0 mark that separates an improvement in vendor performance from a deterioration. That said, the latest increase in lead times on inputs was only marginal. Anecdotal evidence suggested that suppliers had difficulty in sourcing some raw materials during the latest survey period.

Quantity of Purchases Index

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



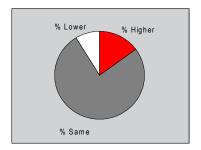


Reflective of larger production requirements, the quantity of inputs bought by Mexican manufacturers increased in October. Purchases rose markedly over the month, with the rate of increase quickening to a pace faster than the series average. One in three surveyed firms bought a larger amount of pre-production materials in October, while approximately 13% of monitored companies reduced their purchases since September.

Stocks of Purchases Index

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





Input inventories at manufacturing firms increased in October. This was signalled by the seasonally adjusted Stocks of Purchases Index registering above the 50.0 no-change mark. Stocks of purchases have increased in seven out of the past nine months, with firms attributing the latest rise to recent growth of new orders. Overall, input inventories rose moderately over the month, with the index posting its highest reading since June.

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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