HSBC *Purchasing Managers' Index*™ 2013 compiled by markit

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HSBC Mexico Manufacturing PMI™

PMI signals weakest manufacturing expansion for over a year

Key findings:

- PMI at lowest level since January 2012, but still signals solid improvement in business conditions
- Slower rates of both output and new order growth
- Input price inflation strengthens to eight-month high

The expansion of Mexico's manufacturing sector continued in February, with firms generally citing greater client demand and successful new product launches. However, the rate of growth was the slowest for over a year as both output and new orders increased at weaker rates. Manufacturers meanwhile took a cautious approach to hiring, with employment rising modestly. On the price front, the rate of input cost inflation was strong and the fastest since last June.

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 seasonally adjusted HSBC Mexico Manufacturing PMI signalled a further solid improvement in Mexican manufacturing business conditions in February. However, down from 55.0 to 53.4, the PMI eased for the second month running and was the lowest since January 2012.

Incoming new work received by manufacturers increased in February, with firms generally citing greater client demand. New export orders also rose, albeit marginally, after having declined in January. Overall, total new work intakes increased solidly, but the rate of growth has slowed sharply since hitting a survey-high in December and was the weakest for over a year.

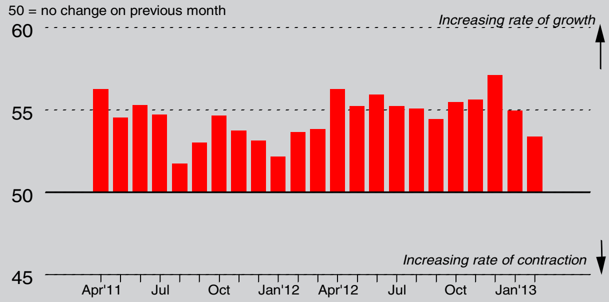
Reflective of higher new order receipts, both output and stocks of finished goods increased in February. However, the latest expansion in production was the weakest since January 2012 and slower than the series average. Backlogs of work meanwhile fell for the fourteenth month running, albeit modestly.

Manufacturing employment in Mexico rose further in the latest survey period, with approximately 11% of panellists hiring additional staff. Although the overall rate of job creation quickened to a three-month high in February, it remained only modest.

The quantity of inputs bought by manufacturers rose strongly in February, while stocks of purchases were largely unchanged from January. Concurrently, suppliers' delivery times lengthened further, partly reflecting stock shortages at vendors.

The rate of input price inflation strengthened to its highest for eight months in February, with raw materials including sugar and corn particularly mentioned as having increased in price. Output charges meanwhile rose at its the strongest pace in three months, although the average price increase was only modest overall.

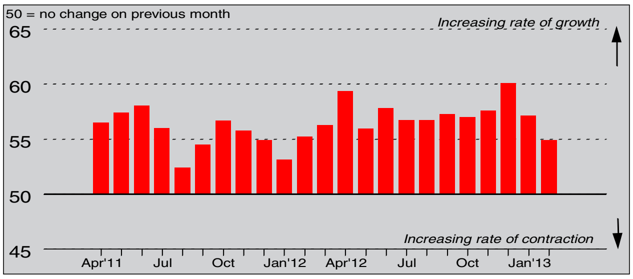
HSBC Mexico *Purchasing Managers' Index (PMI™)*

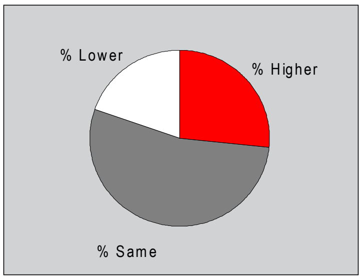


The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

Output Index

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

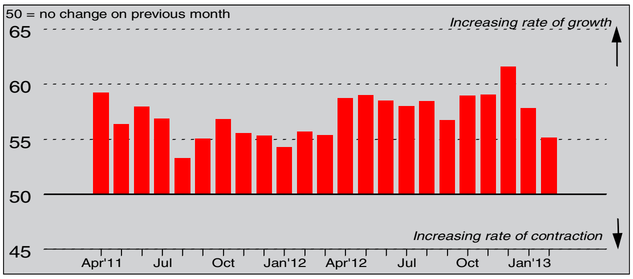


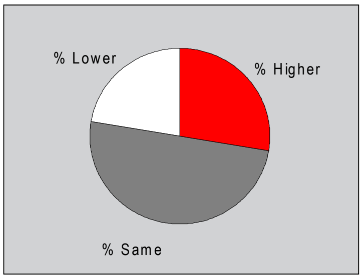


February data pointed to a further rise in manufacturing output in Mexico, with approximately 27% of firms reporting an increase since January. Anecdotal evidence largely linked higher production levels to increased new orders and new product developments. Although the rate of output growth was solid overall, the latest expansion was the slowest since January 2012 and weaker than the historic series average.

New Orders Index

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

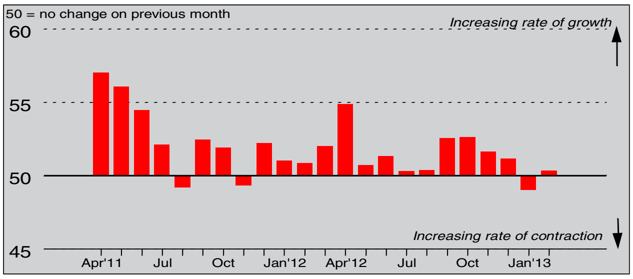


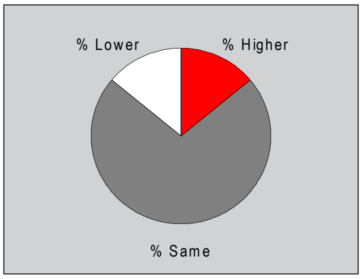


The seasonally adjusted New Orders Index remained above the 50.0 no-change mark in February, signalling a further increase in the volume of new work received by Mexican manufacturers. Firms generally commented on greater client demand, particularly for products that were recently launched. However, the index has fallen over six points since hitting a survey-high in December, and the latest reading indicated the weakest rate of increase in over a year.

New Export Orders Index

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

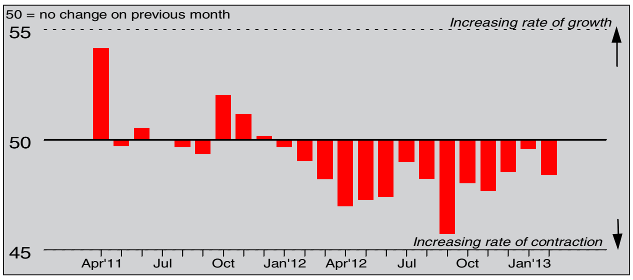


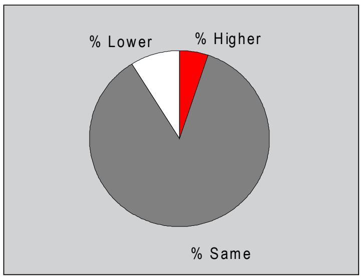


After having fallen marginally in January, the volume of new export orders placed at Mexican manufacturing companies increased in February. That said, the rise in new work intakes from abroad was only slight and weaker than the series average. Where larger volumes of new export orders were reported, firms generally cited greater client demand, particularly in South America and Europe.

Backlogs of Work Index

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

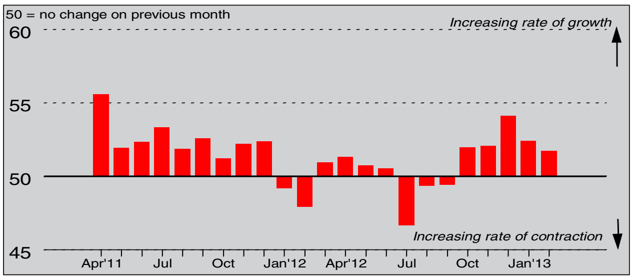


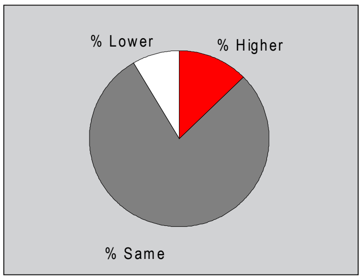


Backlogs of work at Mexican manufacturers fell for the fourteenth consecutive month in February. Almost 9% of survey respondents reported lower levels of outstanding business compared with one month previously, and attributed the decline to a combination of improved production efficiency and slower growth of new orders. Overall, the rate of backlog depletion was moderate and the strongest in three months.

Stocks of Finished Goods Index

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

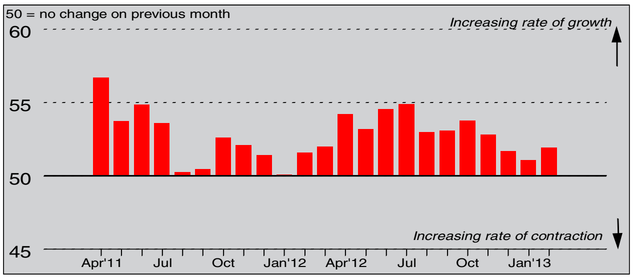


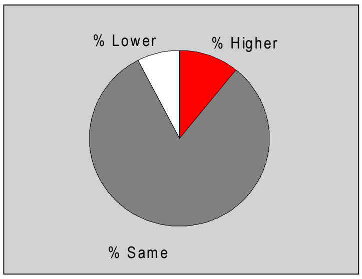


Following the trend that has been recorded in each month since last October, inventories of finished goods at monitored companies increased in February. Anecdotal evidence generally attributed stock accumulation to greater client demand. That said, the latest increase in stocks of finished goods was only modest 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.

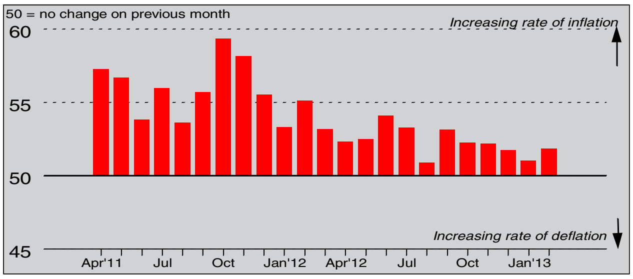


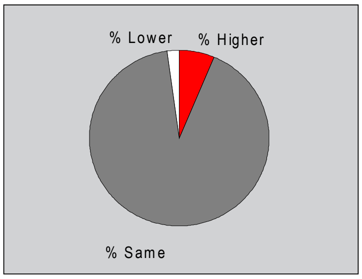


Manufacturing employment in Mexico increased in February, as has been the case in each month since data collection began in April 2011. Approximately 11% of surveyed firms hired additional staff since January (while 8% reduced their employee numbers), largely citing higher output requirements. Overall, the rate of job creation was modest and the fastest in three months.

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.

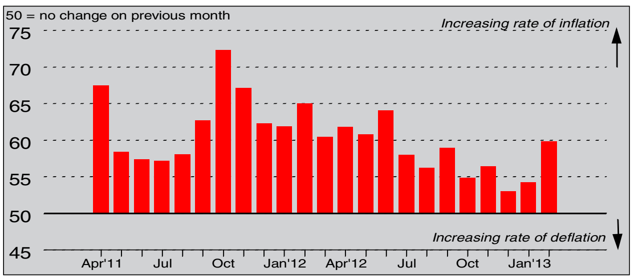


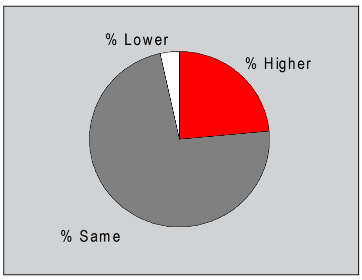


Average selling prices of manufacturers in Mexico continued to increase in February, as signalled by the seasonally adjusted Output Prices Index remaining above the 50.0 no-change mark. Approximately 6% of firms raised their factory gate prices over the month, with a number of panellists attributing this to the launch of new products. Although the index was the highest since November, it was consistent with only a modest increase in output charges overall.

Input Prices Index

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

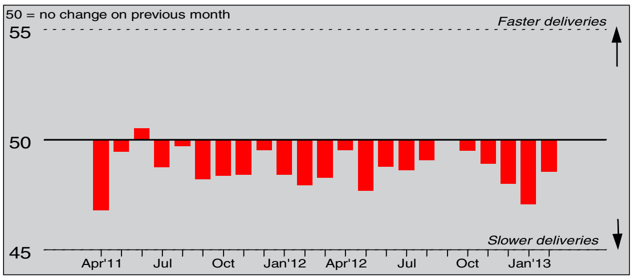


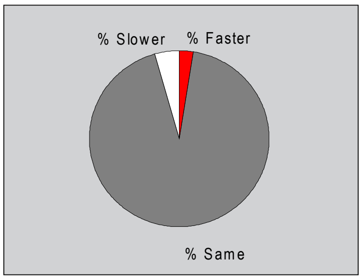


Mexican manufacturers faced higher input prices in February, with almost 24% of firms reporting higher cost burdens compared with one month previously. Raw materials including sugar, corn and oil were particularly mentioned by respondents as having increased in price during the latest survey period. Overall, the rate of input price inflation was marked and the strongest since last June.

Suppliers' Delivery Times Index

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

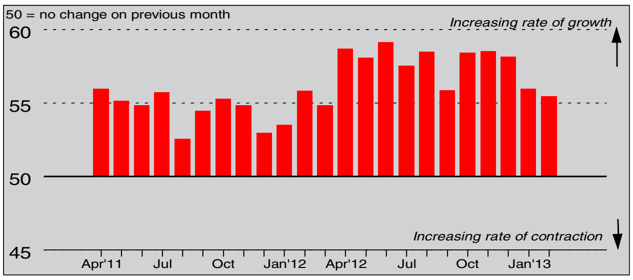


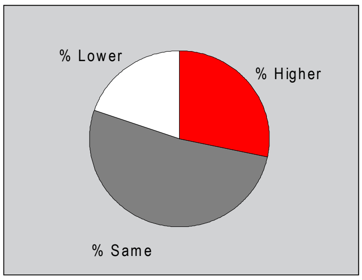


The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in February, indicating a further lengthening in lead times for inputs. The latest deterioration in vendor performance was moderate, and the least marked in three months. Stock shortages and transportation problems were some of the reasons provided by panellists for the latest increase in delivery times.

Quantity of Purchases Index

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

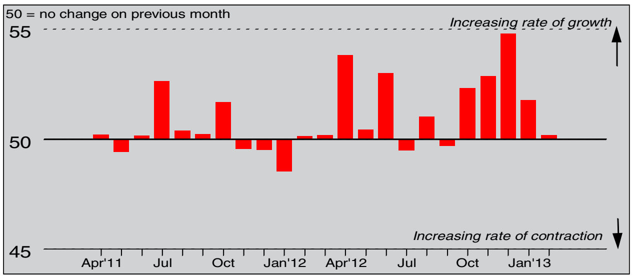


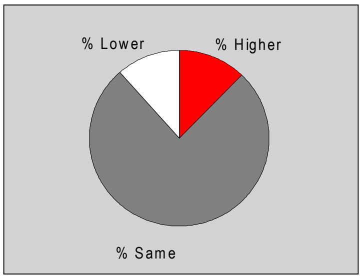


Reflective of higher production levels, the quantity of inputs bought by Mexican manufacturing companies increased in February. Input buying rose strongly, with over 28% of survey respondents reporting an increase over the month. Nonetheless, the rate of growth slowed for the third month running to its weakest since March 2012.

Stocks of Purchases Index

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





Stocks of purchases at Mexican manufacturers were almost unchanged in February. The seasonally adjusted Stocks of Purchases Index was only slightly above the 50.0 no-change threshold and indicated a fractional rise in input inventories over the month. Although 12% of panellists reported an increase in stocks, largely due to higher new orders, roughly the same percentage of respondents registered a reduction, partly reflecting leaner inventory requirements.

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.

Warning