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HSBC Mexico Manufacturing PMI™

Manufacturing production increases at weakest pace since August 2011

Key findings:

- Output growth slowest for 19 months
- New order volumes increase solidly, but at slowest pace since January 2012
- Input price inflation much slower than February's eight-month high

March data pointed to the weakest improvement in business conditions in Mexico's manufacturing sector since January 2012, with both the rates of output and new order growth having eased. In particular, the monthly rise in production was the joint-slowest since data collection first began in April 2011. Firms took a cautious approach towards hiring, with overall job creation modest, while the rate of input price inflation eased sharply since hitting an eight-month peak in February.

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 HSBC Mexico Manufacturing PMI fell to 52.2 in March, its lowest reading in 14 months. The PMI, down from 53.4 in February, was consistent with only a modest improvement in overall operating conditions in the Mexican manufacturing sector.

The amount of new work received by manufacturers rose further in March, with one-in-four firms reporting an increase since February. Greater demand was largely cited by panellists. Overall, new order growth was solid, but having slowed for the third month running, was the weakest since January 2012.

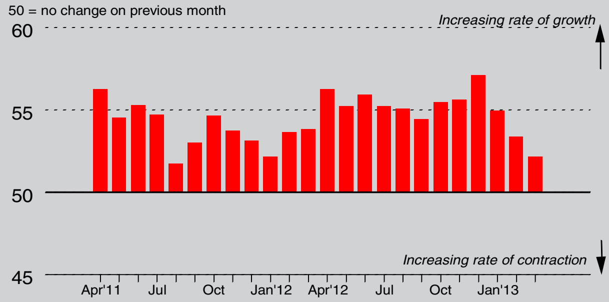
The weaker expansion in new work contributed to a slower rise in output in March. Manufacturing production rose only modestly and at the joint-weakest pace in the two-year survey history, matching that seen in August 2011. Concurrently, stocks of finished goods were largely unchanged since February, while the reduction in backlogs of work was the strongest in six months.

Firms took a cautious approach to hiring in March. Approximately 7% of respondents hired additional staff in the latest survey, while 4% reduced their headcount. Overall, the rate of job creation was moderate and slower than one month previously.

The quantity of inputs bought by manufacturers rose further in March, reflecting higher production requirements. That said, the rate of increase was at a 14-month low. Meanwhile, stocks of purchases were depleted for the first time since last September.

Although companies recorded higher input costs in March, with raw material prices commonly reported as having increased in price, the overall rate of inflation was much slower than that registered in February. Similarly, output charges also rose at a weaker pace, with the latest increase only marginal overall.

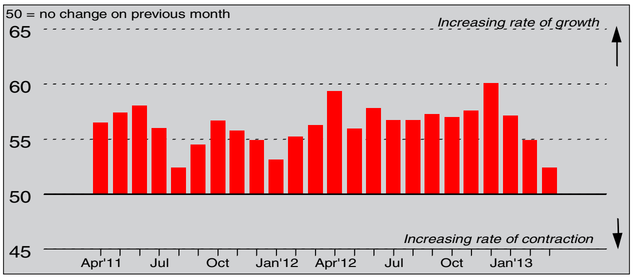
HSBC Mexico *Purchasing Managers' Index (PMI™)*

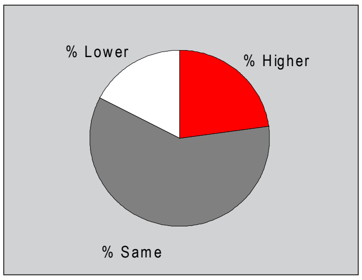


The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

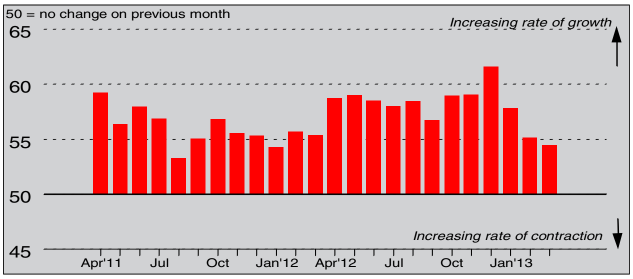


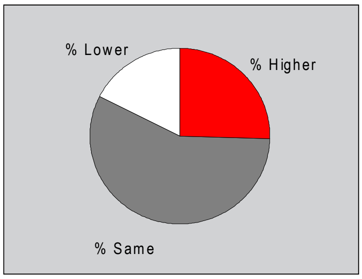


The seasonally adjusted Output Index remained above the 50.0 no-change threshold in March, indicating a further increase in manufacturing production. Approximately 23% of firms reported higher levels of output compared with one month previously, linking this to increased new orders and new client wins. However, the index fell to its joint-lowest level in the two-year series history, suggesting that the rate of output growth was only modest overall.

New Orders Index

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

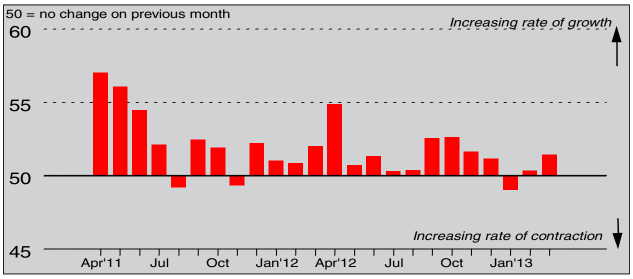


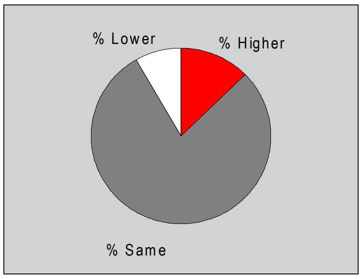


Mexican manufacturers received a larger volume of new work in March, continuing the trend that has been registered in each month since data collection began in April 2011. One-in-four companies reported larger volumes of new orders in the latest survey period, generally attributing the increase to greater client demand. Overall, the rate of new order growth was solid, but having slowed for the third month running, it was the weakest since January 2012.

New Export Orders Index

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

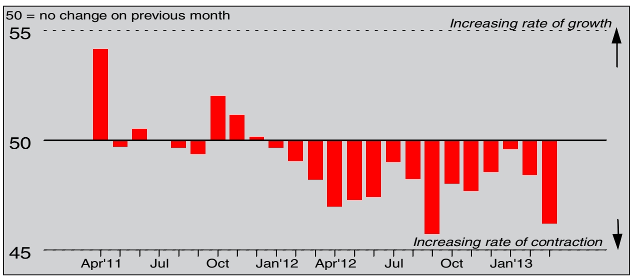


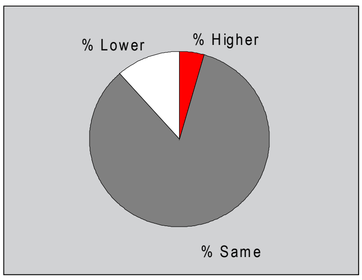


New export orders placed at Mexican manufacturing companies increased for the second consecutive month in March. Approximately 13% of surveyed companies reported an increase in new export work since February, while 8% recorded a reduction. Although the rate of growth was the fastest in four months, it was only modest and slower than the series average.

Backlogs of Work Index

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

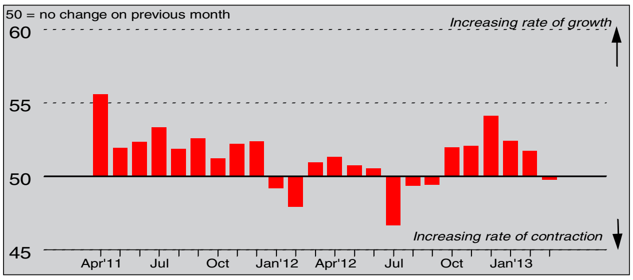


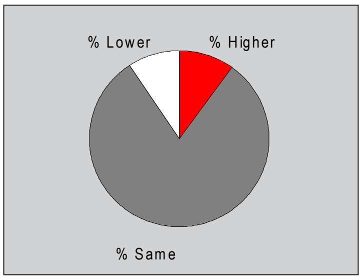


Outstanding business at manufacturing firms fell for the fifteenth successive month in March. Moreover, the rate of backlog depletion was strong, having quickened to the fastest pace since last September. A number of panellists suggested that the latest reduction in work-in-hand reflected improved production efficiency, although other respondents also commented that existing finished goods inventories were used to fulfil some order requirements.

Stocks of Finished Goods Index

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

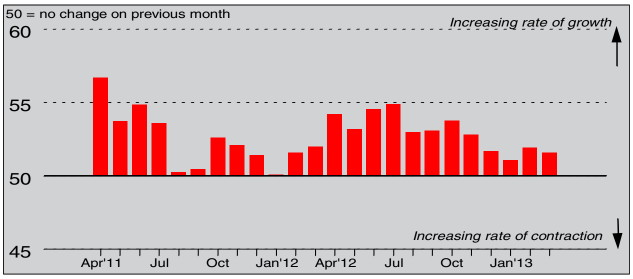


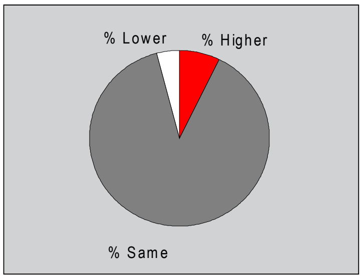


Stocks of finished goods were depleted by manufacturers in March. This was signalled by the seasonally adjusted Stocks of Finished Goods Index falling below the 50.0 no-change mark that separates inventory accumulation from depletion – the first sub-50 reading in six months. One-in-ten firms recorded lower inventories of finished goods, with a number of companies reporting that existing stocks were used to fulfil some new order requirements.

Employment Index

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

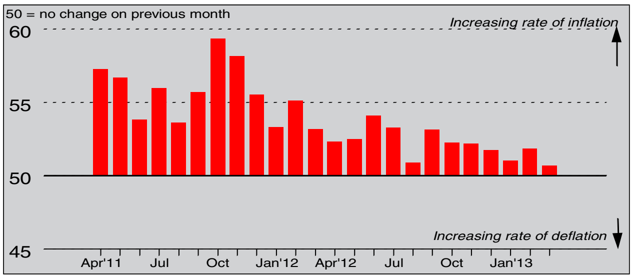


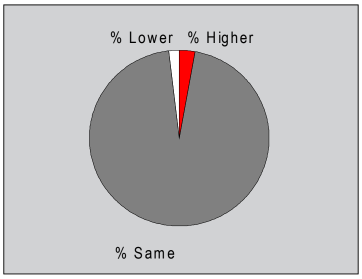


Employment in Mexico's manufacturing sector rose further in March, with approximately 7% of monitored companies hiring additional staff since February. Where staffing levels rose, firms generally attributed this to higher business requirements. Overall, the rate of job creation was moderate, but slower than that registered one month previously.

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.

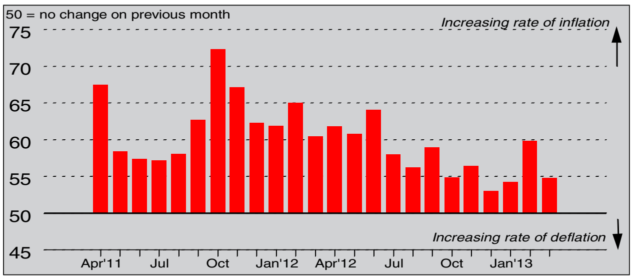


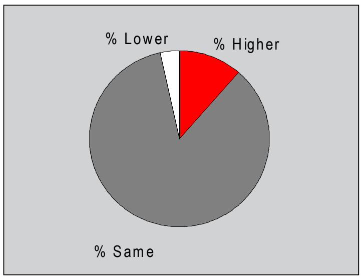


The seasonally adjusted Output Prices Index posted above the 50.0 no-change mark in March, signalling an increase in output charges at Mexican manufacturers. Firms that raised their selling prices over the month attributed this to passing on higher costs to clients. However, the index fell to its lowest level since data collection began in April 2011, suggesting that the rate of output price inflation was only marginal.

Input Prices Index

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

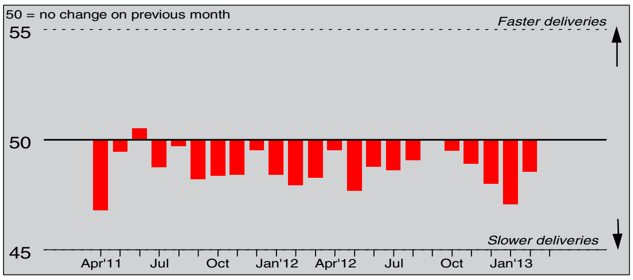


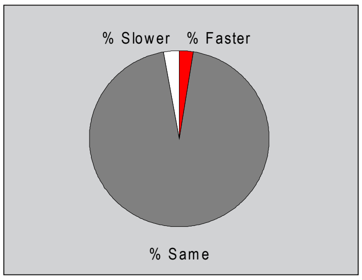


Manufacturers faced a further rise in cost burdens during March, with over 11% of panellists reporting an increase since February. Higher prices for raw materials, including plastics, and unfavourable exchange rates both contributed to the latest rise in costs. Although the rate of input price inflation was strong overall, it was much slower than February's eight-month peak.

Suppliers' Delivery Times Index

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

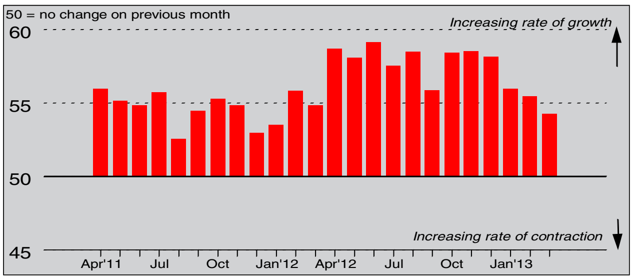


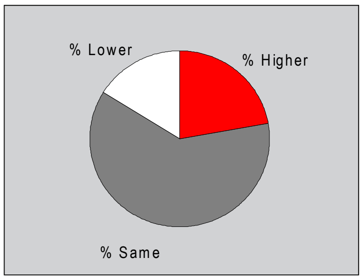


Lead times for suppliers to deliver inputs to Mexican manufacturers in March were unchanged from that reported in February. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index registering exactly at the 50.0 no-change level that separates an increase in lead times from a reduction. The majority of survey respondents (almost 95%) reported no change in the performance of suppliers in March.

Quantity of Purchases Index

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

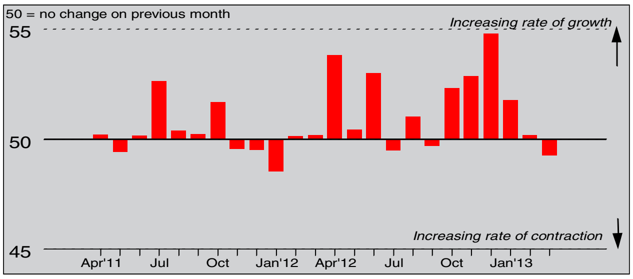


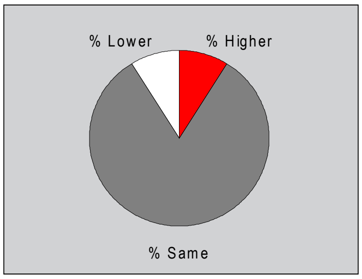


The quantity of inputs bought by manufacturers rose further in March, continuing the trend that has been registered in each month since data collection started in April 2011. Where purchasing activity had increased, firms largely linked this to higher production requirements. Overall, the rate of growth was solid, but nonetheless the weakest in 14 months.

Stocks of Purchases Index

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





Mexican manufacturing companies reported a lower level of pre-production stocks in March. The rate of inventory depletion was only marginal, albeit the first contraction in six months. Anecdotal evidence generally attributed the reduction in stocks of purchases to learner inventory requirements in the latest survey period.

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