HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Mexico Manufacturing PMI™

PMI signals only a modest manufacturing expansion in May

Key findings:

- PMI remains at lowest level since the survey began in April 2011
- Output growth quickens, but only slightly
- Rate of job creation eases from April's five-month high

Mexican manufacturing business conditions remained weak in May, with both output and new order volumes rising only modestly since April. The rate of growth for the latter was the joint-weakest in the 26-month series history and partly reflected a renewed reduction in new export work. Concurrently, job creation eased over the month, while input price pressures picked up slightly from April's four-month low.

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 was unchanged in May, remaining at the joint-lowest reading in the 26-month series history. Posting at 51.7 for the second month running, the PMI was consistent with only a modest improvement in manufacturing business conditions in Mexico.

Manufacturing production in Mexico rose further in May, and at a slightly faster rate than in April. However, the rate of output growth was only modest and weaker than the series average. Firms largely commented on higher new order requirements, which rose at the joint-slowest pace since data collection began in April 2011. The weak trend in total new work partly reflected a renewed decline in new export orders.

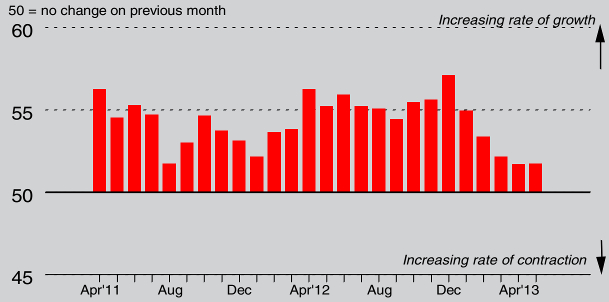
Outstanding business at monitored companies fell further during May, with the rate of backlog depletion strong overall. Stocks of finished goods were also reduced for the third month running, but to a lesser extent than in April.

The quantity of inputs bought by manufacturers increased at a sharply reduced rate in May. Inventories of pre-production goods were meanwhile depleted for the third consecutive month and at the strongest pace since data collection began in April 2011.

Employment in Mexico's manufacturing sector continued to rise in May, with one-in-ten firms hiring additional staff over the month. The rate of job creation nonetheless eased since April.

Firms reported higher cost burdens in the latest survey period, with raw materials including steel and oil particularly mentioned by panellists as having increased in price. Overall, the rate of inflation was solid, but much weaker than the series average. Meanwhile, output charges were reduced for the second month running in May, albeit only marginally.

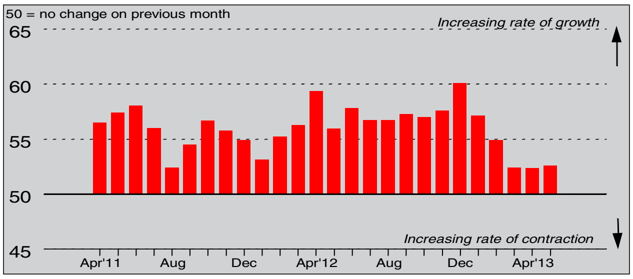
HSBC Mexico *Purchasing Managers' Index (PMI™)*

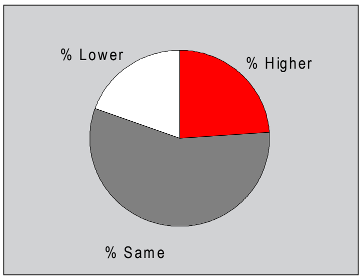


The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

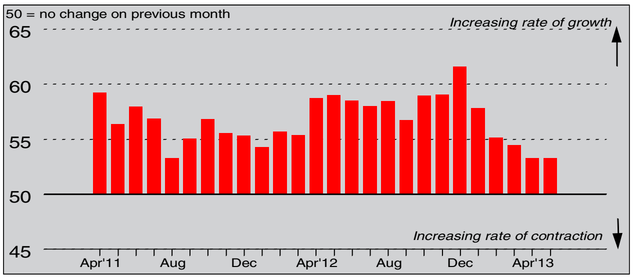


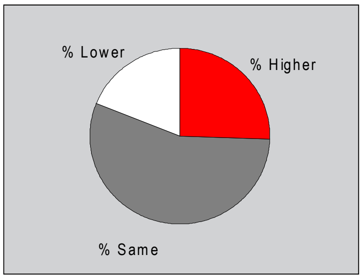


After adjusting for seasonal variation, manufacturing output in Mexico rose further during May. Approximately 24% of companies reported higher production levels compared with April, often linking the increase to larger volumes of new business. However, little-changed from the survey-lows recorded in the previous two months, the overall rate of output growth was only modest.

New Orders Index

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

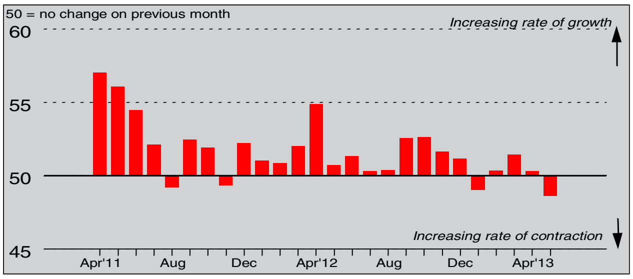


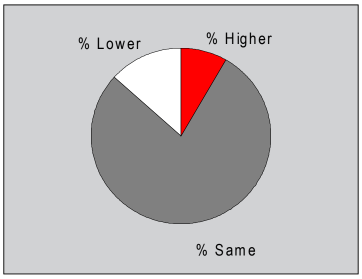


Incoming new work at Mexican manufacturing companies increased in May, as signalled by the seasonally adjusted New Orders Index posting above the 50.0 no-change mark. Firms reporting larger volumes of new work mainly attributed this to a combination of greater client demand and new product launches. However, the index was unchanged from April's joint-survey low, suggesting that the rate of growth was moderate.

New Export Orders Index

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

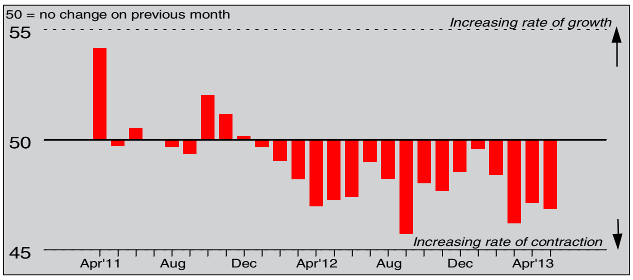


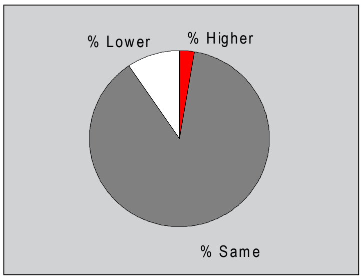


In contrast with the increases recorded in the previous three months, the volume of new export orders received by Mexican manufacturing companies fell during May. Although modest, the rate of decline was the strongest since data collection began in April 2011. Approximately 13% of respondents reported a reduction in new export work in the latest survey period, with a number of panellists commenting on economic weakness in some key export markets.

Backlogs of Work Index

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

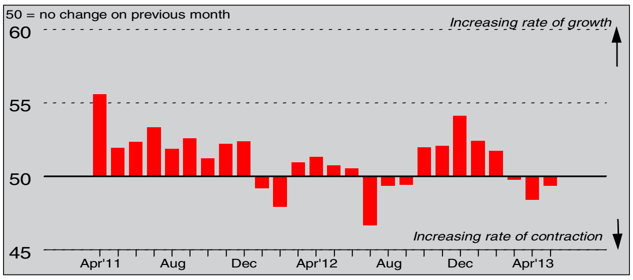


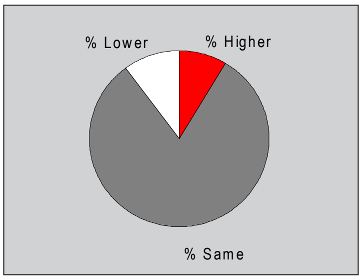


Following the trend that has been recorded in each month since January 2012, the level of outstanding business at manufacturers fell during May. Anecdotal evidence suggested that the reduction in work-in-hand partly reflected a weak trend for new orders. Overall, the rate of backlog depletion was slightly more marked than in April.

Stocks of Finished Goods Index

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

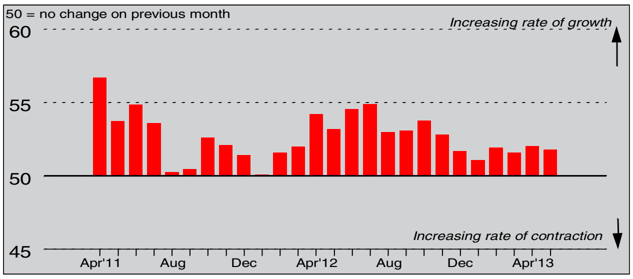


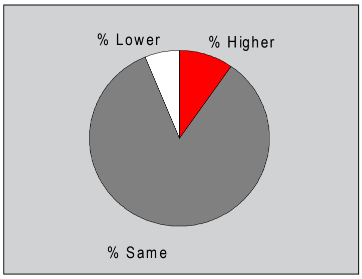


Stocks of finished goods were depleted for the third consecutive month in May. Approximately 10% of respondents reported a reduction of finished goods inventories (while 9% recorded an increase), and commonly linked the decline to the weak trend for new orders. Nonetheless, the overall rate of stock depletion eased from April's nine-month peak and was marginal.

Employment Index

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

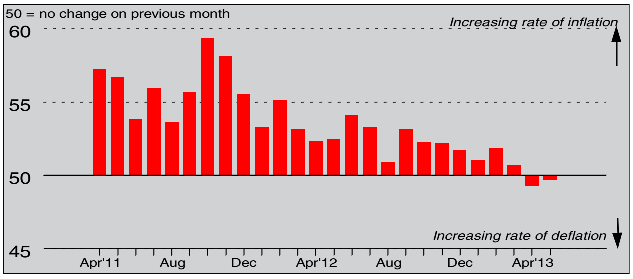


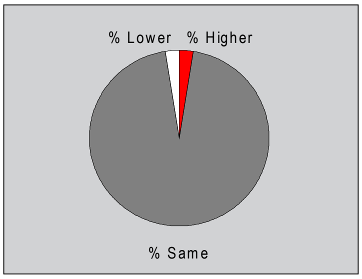


Manufacturing employment in Mexico rose further during May, with almost one-in-ten surveyed firms hiring additional staff since April. The increase in staff numbers partly reflected higher production requirements in the latest survey period. However, the rate of job creation eased over the month and was weaker than the series average.

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.

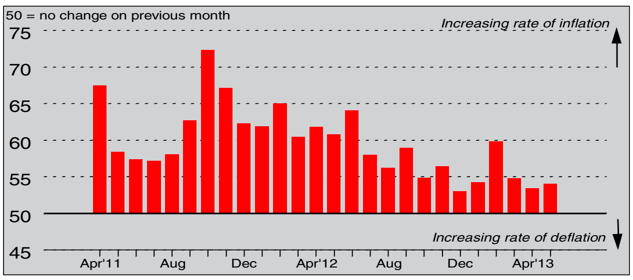


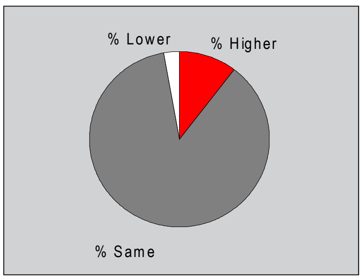


Average selling prices at Mexican manufacturing companies fell for the second month running in May. This was signalled by the seasonally adjusted Output Prices Index registering below the 50.0 no-change level. That said, the latest index reading was only slightly below the neutral threshold, suggesting that the reduction in output charges was marginal. A number of panellists that lowered their factory gate prices attributed this to strong competition for new work.

Input Prices Index

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

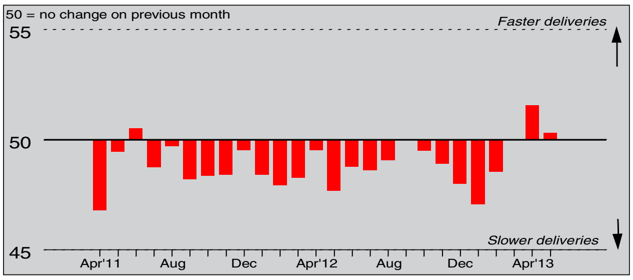


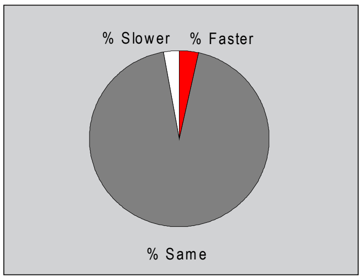


Input costs faced by Mexican manufacturers rose further in May, continuing the trend that has been registered in each month since data collection began in April 2011. Firms commonly reported higher raw materials prices, particularly for steel, glass and oil. Despite the overall rate of input price inflation accelerating from April's four-month low, it remained much weaker than the series average.

Suppliers' Delivery Times Index

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

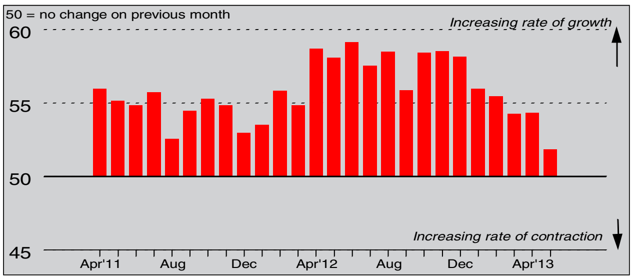


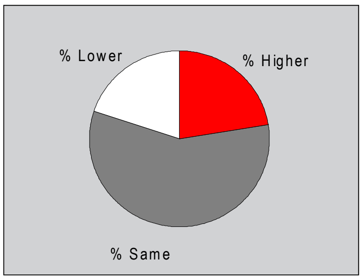


The seasonally adjusted Suppliers' Delivery Times Index remained above the 50.0 no-change mark for the second month running in May, indicating shorter lead times for inputs. Approximately 4% of respondents recorded faster delivery times compared with April, and suggested that this reflected spare capacity at some suppliers. Overall, the latest improvement in vendor performance was marginal and less marked than in the previous survey period.

Quantity of Purchases Index

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

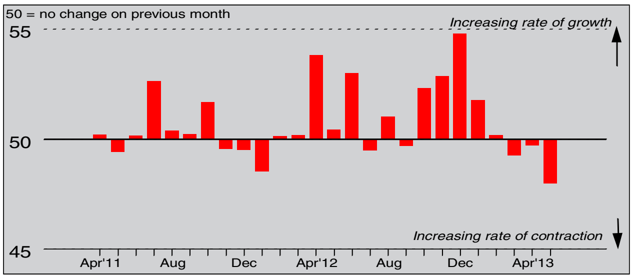


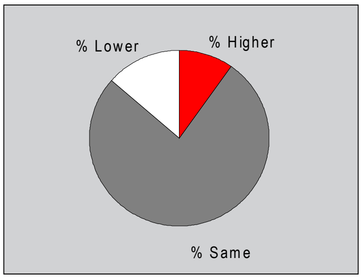


Reflective of higher output levels, the quantity of inputs bought by monitored companies increased in May. However, the rate of growth of purchasing volumes eased sharply from April to its weakest in the 26-month series history. Approximately 22% of respondents bought a larger volume of inputs in the latest survey period, while almost 20% reduced their buying activity.

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 were reduced for the third consecutive month in May. Moreover, the rate of stock depletion was moderate and the strongest since data collection began in April 2011. Where lower levels of pre-production stock were recorded, firms often linked this to the weak trend for new orders. A number of panellists also cited a preference for leaner inventories 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.