

HSBC Mexico Manufacturing PMI™

Slowest rates of output and new order growth in 27-month survey history

Key findings:

- Both output and new orders increase modestly in June
- Weakest rate of job creation since January
- PMI falls to new survey-low, suggesting only modest improvement in business conditions

Mexican manufacturing business conditions improved at the weakest pace in the 27-month series history during June. Although output and new orders continued to rise, the rates of growth were only modest and contributed to the weakest increase in employment since January. Meanwhile, firms continued to work through their backlogs and attempted to win new business by reducing their output charges for the third month running.

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 variations, the HSBC Mexico Manufacturing PMI fell to 51.3 in June, its lowest reading since data collection began in April 2011. Having fallen from 51.7 in May, the headline index was consistent with only a modest improvement in manufacturing business conditions.

The volume of new work received by Mexican manufacturers increased in June, partly reflecting new client wins. However, the rate of new order growth was only modest and the slowest in the

27-month series history. New export orders meanwhile fell for the second month running, with a number of panellists attributing this to weak economic conditions in some key export markets.

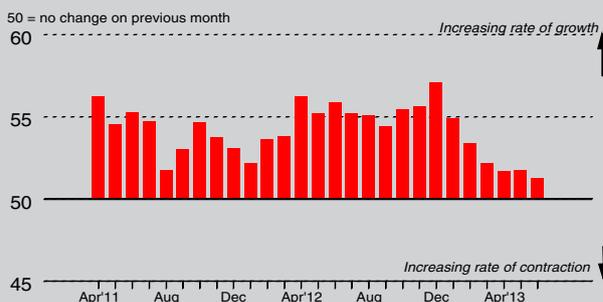
Concurrently, output rose only modestly in June, with the latest increase much weaker than that recorded at the start of the year. Companies also continued to deplete outstanding business, with the latest reduction in backlogs of work the joint-strongest since last September.

The quantity of inputs bought by manufacturers increased in June, and stocks of purchases were broadly unchanged from May. Meanwhile, suppliers' delivery times lengthened modestly and for the first time in four months.

Manufacturing employment in Mexico continued to increase in June, with one-in-ten firms hiring additional staff over the month. However, the rate of job creation was only modest and the weakest since January.

Input costs faced by companies rose at the weakest pace in the 27-month series history. Nonetheless, firms reported higher raw material prices in the latest survey period. Despite larger cost burdens, manufacturers reduced their selling prices for the third month running. A number of panellists that lowered their charges commented on offering discounts to some clients.

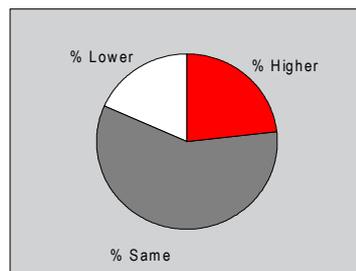
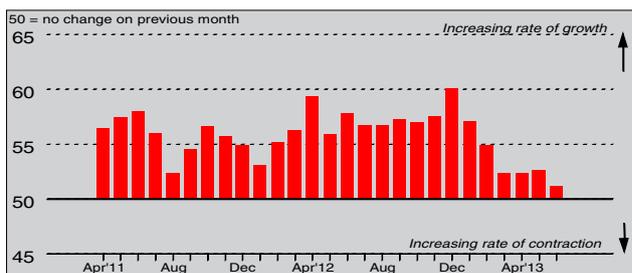
HSBC Mexico Purchasing Managers' Index (PMI™)



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

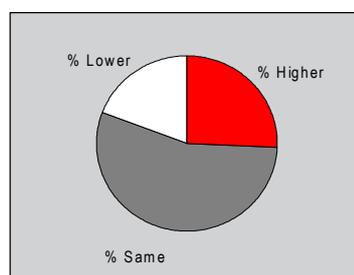
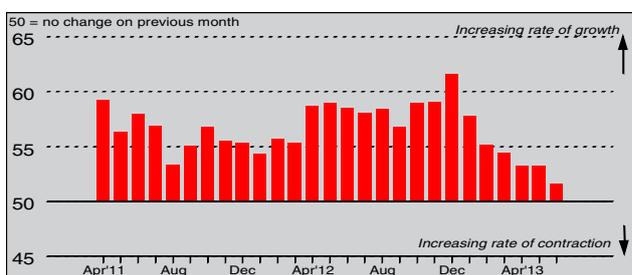
Q. Please compare your production/output this month with the situation one month ago.



Although remaining above the 50.0 no-change mark in June, suggesting an increase in manufacturing production, the seasonally adjusted Output Index fell to its lowest level since data collection began in April 2011. Output rose only marginally over the month, with the rate of increase much weaker than that registered at the start of the year. Although a number of firms that reported higher production levels cited increased new orders, other companies that reduced their output commented on weak economic conditions.

New Orders Index

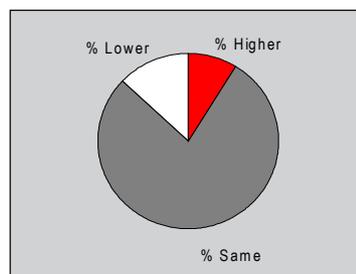
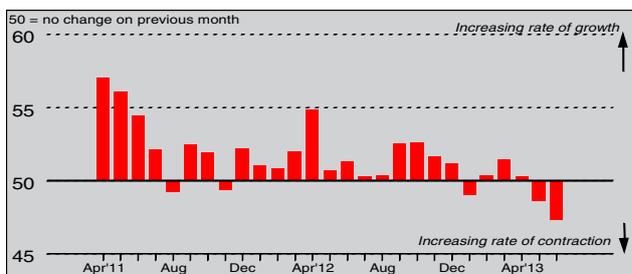
Q. Please compare the level of new orders received (Mexico and export) this month with the situation one month ago.



Incoming new work at Mexican manufacturing companies increased in June, continuing the trend that has been registered in each month since data collection began in April 2011. Approximately 26% of survey respondents recorded larger new order volumes and often linked this to new client wins. However, the overall rate of growth was only modest and the slowest in the survey history.

New Export Orders Index

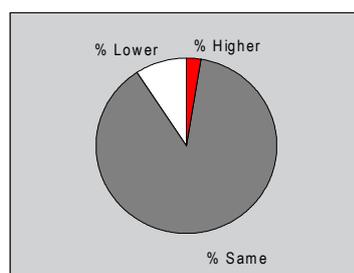
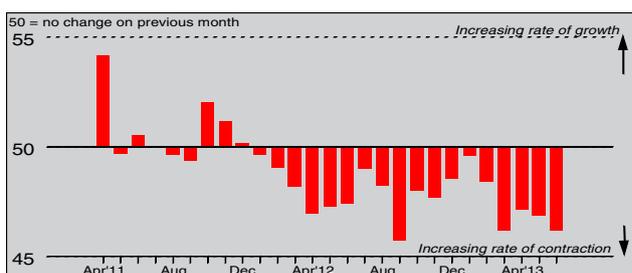
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Mexican manufacturers received lower volumes of new export orders for the second month running in June. Moreover, the rate of contraction accelerated since May and was the fastest in the 27-month series history. Anecdotal evidence provided by panellists suggested that the latest reduction in new work from abroad partly reflected economic weakness in key export markets.

Backlogs of Work Index

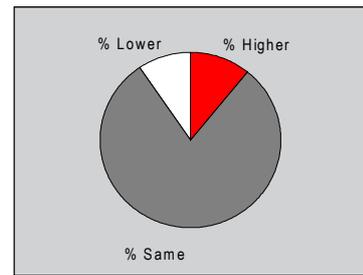
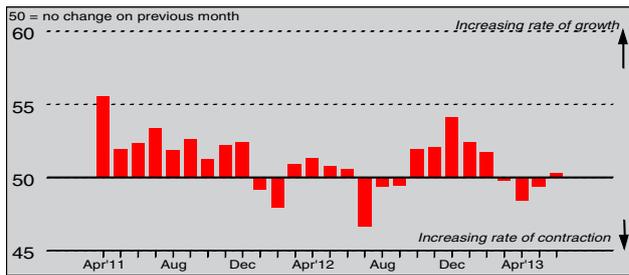
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Mexican manufacturing companies fell further during June, taking the current sequence of backlog depletion to a year-and-a-half. Approximately 9% of panellists reported lower levels of work-in-hand compared with May, while less than 3% recorded an increase. Overall, the latest reduction in backlogs of work was solid and the joint-strongest since last September (on par with March).

Stocks of Finished Goods Index

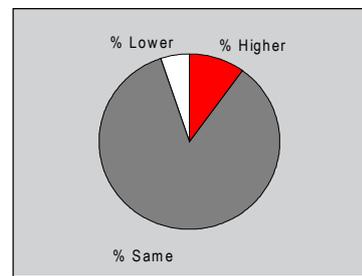
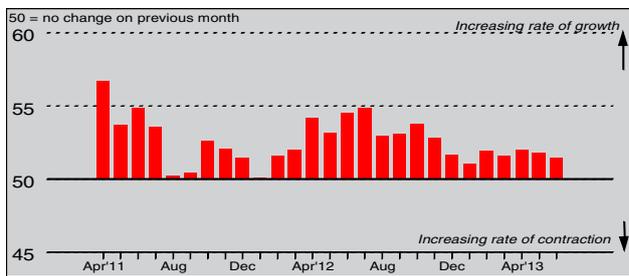
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index returned above the 50.0 no-change mark in June, signalling an accumulation of post-production inventories. Although the index was consistent with only a marginal rate of stock accumulation, this was the first increase since February. A number of panellists linked higher inventory levels to the slower rate of new order growth.

Employment Index

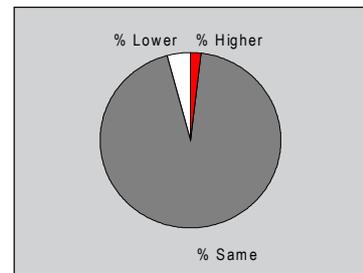
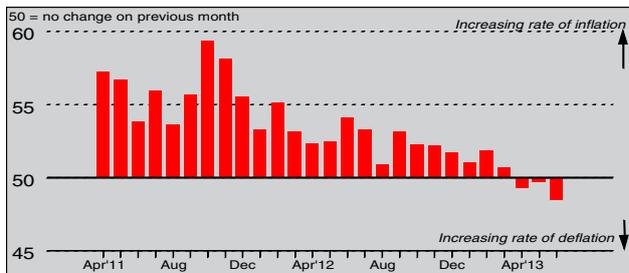
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in Mexico rose further in June, as indicated by the seasonally adjusted Employment Index remaining above the 50.0 no-change threshold that separates growth from contraction. Exactly 10% of surveyed companies hired additional staff since May, while half as many reduced their workforces. Nonetheless, the rate of job creation was modest and, having slowed for the second month running, the weakest since January.

Output Prices Index

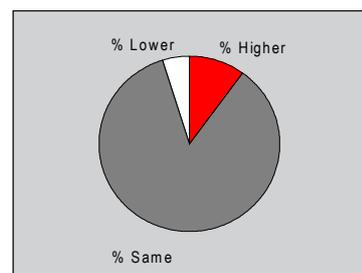
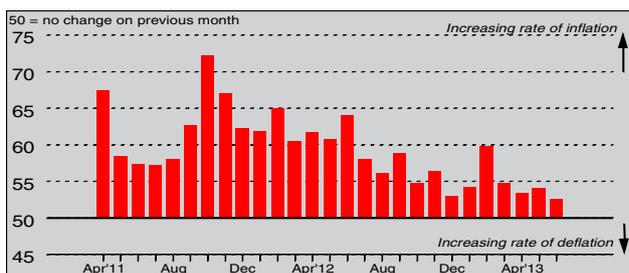
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturing firms reduced their selling prices for the third consecutive month in June. Moreover, the latest deduction in output charges was the strongest since data collection began in April 2011. A number of companies that lowered their factory gate prices commented that discounts were offered to some clients in an attempt to win new business.

Input Prices Index

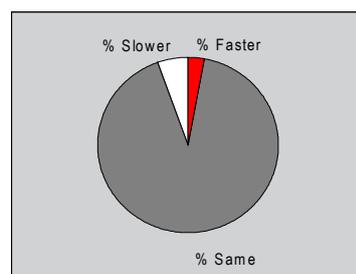
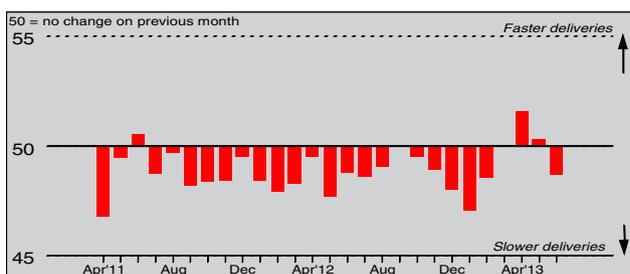
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by manufacturers in Mexico continued to rise during June. Firms mentioned that higher raw material prices, as well as unfavourable exchange rate movements were generally behind the latest increase in cost burdens. However, the overall rate of input price inflation slowed to the weakest pace in the 27-month series history and was moderate.

Suppliers' Delivery Times Index

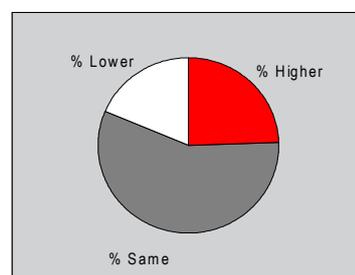
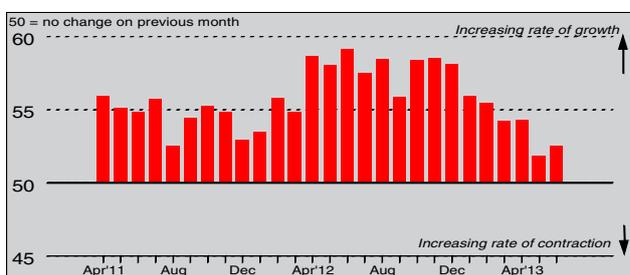
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened in June, after having shortened in the previous two months. The seasonally adjusted Suppliers' Delivery Times Index fell below the 50.0 no-change level and suggested a modest increase in lead times for inputs. Production problems, transport delays and limited supplies of key raw materials were some of the reasons provided by panellists when explaining the deterioration in vendor performance.

Quantity of Purchases Index

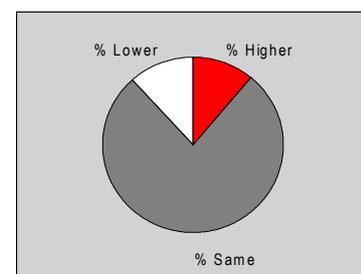
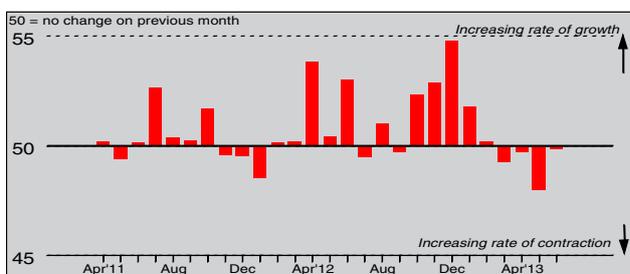
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of higher production requirements, the quantity of inputs bought by Mexican manufacturers increased in June. Almost one-in-four companies raised their purchasing volumes in the latest survey period. Overall, the rate of growth was modest and faster than in May, but remained slower than the series average. Input buying has increased throughout the 27-month series history.

Stocks of Purchases Index

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



Input inventories at manufacturing companies were broadly unchanged in June. This was indicated by the seasonally adjusted Stocks of Purchases Index posting only slightly below the 50.0 no-change mark. The majority of survey respondents (over 77%) reported no change in stocks of pre-production goods 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.

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