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HSBC Mexico Manufacturing PMI™

PMI signals first deterioration in business conditions in 28-month series history

Key findings:

- PMI falls below 50.0 no-change mark in July
- Output falls modestly, while new orders stagnate
- · Employment little-changed from June

For the first time since data collection began in April 2011, Mexican manufacturing business conditions deteriorated in July, albeit only marginally. Output contracted over the month, partly reflecting a stagnant trend for new orders, and this in turn led to little-change in employment. Firms meanwhile attempted to win new business by offering price discounts to clients, despite the rate of input cost inflation quickening to a five-month high.

The headline figure derived from the survey is the Manufacturing $Purchasing\ Managers'\ Index^{TM}\ (PMI^{TM})$. 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.

At 49.7 in July, down from 51.3 in June, the seasonally adjusted HSBC Mexico Manufacturing PMI fell below the 50.0 no-change mark, signalling a deterioration in operating conditions. This was the first sub-50 reading in the 28-month series history, but the headline index was consistent with only a marginal contraction.

In July, the volume of new orders received by Mexican manufacturers was broadly the same as in June. The stagnant trend contrasted with growth one month previously, and partly

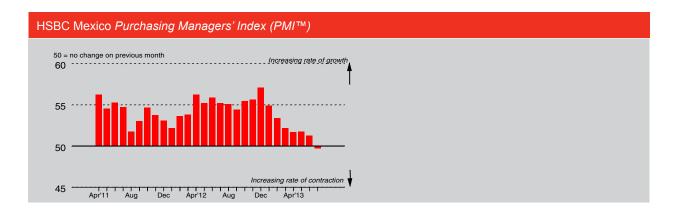
reflected weak client demand. Notably, new export orders fell solidly and for the third month running.

Reflective of the easing new order trend, output fell modestly in July, ending a sequence of growth seen in each month since data collection began in April 2011. Backlogs of work also declined, and at the strongest rate since last September.

The quantity of purchases bought by manufacturers was unchanged in July, while stocks of purchases were depleted for the fifth consecutive month. Concurrently, suppliers' delivery times lengthened, albeit only slightly, as some vendors had difficulty in sourcing key raw materials.

Manufacturing employment in Mexico was little-changed from June, with the majority of panellists (almost 85%) keeping their staff numbers unchanged in July. This was the weakest employment trend for a year-and-a-half.

Firms reported greater input costs in July, with a number of companies citing higher raw material prices and unfavourable exchange rates. Overall, the rate of inflation was the strongest since February, but remained weaker than the series average. Meanwhile, manufacturers lowered their selling prices for the fourth month running in a bid to win new business.



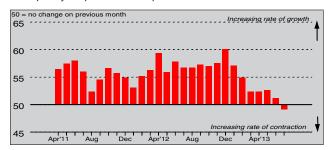
The HSBC Mexico Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

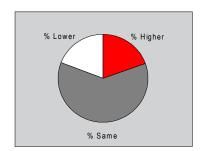




Output Index

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

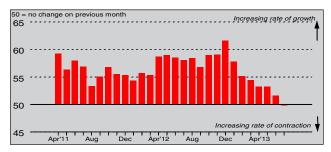


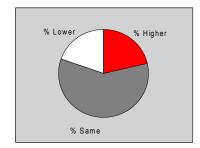


In July, the seasonally adjusted Output Index fell below the 50.0 no-change mark for the first time since data collection began in April 2011. The sub-50 reading suggested that manufacturing production in Mexico was lower than one month previously, although the rate of contraction was only modest. Weaker client demand and fragile market conditions were some of the reasons provided by panellists for the reduction in output.

New Orders Index

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

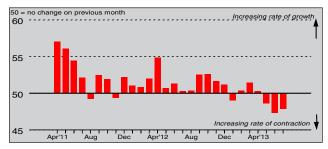


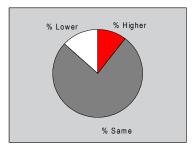


Incoming new work at Mexican manufacturing companies in July was broadly the same as the volume received during June. This was signalled by the seasonally adjusted New Orders Index posting only fractionally below the 50.0 no-change threshold – its lowest reading in the 28-month series history. A number of survey respondents linked the stagnant trend for new business to weak 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.

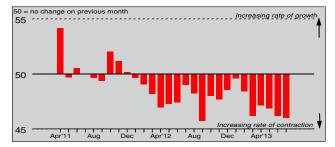


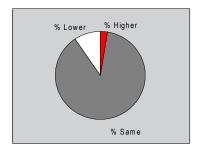


New export orders received by Mexican manufacturers fell for the third consecutive month in July. The rate of decline was moderate, but weaker than the series record seen in June. Approximately 13% of surveyed companies reported a reduction in new export work (while 11% recorded an increase), and generally linked this to weaker demand.

Backlogs of Work Index

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



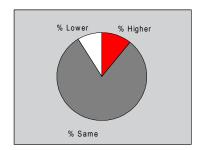


Following the trend that has been registered in each month since January 2012, the level of outstanding business at manufacturing companies continued to fall in July. Moreover, the latest reduction was the fastest since last September. Almost one-in-ten surveyed firms reported a lower level of backlogs and partly attributed this to the stagnant trend for new orders.

Stocks of Finished Goods Index

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

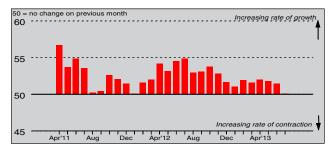


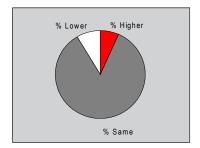


Mexican manufacturing companies reported a second successive monthly increase in stocks of finished goods during July. However, the rate of growth was only marginal and unchanged from that recorded in June. Approximately 11% of respondents reported higher inventory levels in the latest survey period, compared with 9% that registered a reduction.

Employment Index

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

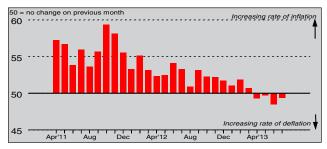


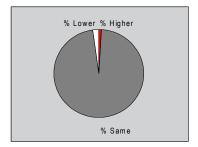


Manufacturing employment in Mexico was broadly unchanged in July. This was signalled by the seasonally adjusted Employment Index posting only fractionally above the 50.0 mark that separates growth from contraction – its lowest reading since January 2012. The majority of survey respondents (almost 85%) reported no change in their staff numbers from June.

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.

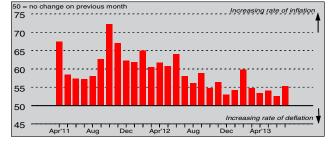


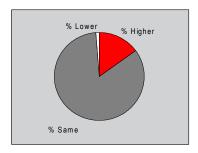


Average selling prices at manufacturing companies fell for the fourth successive month in July. That said, the latest reduction in charges was only marginal and weaker than that recorded in June. A number of panellists linked the decline in output prices to offering discounts to clients in an attempt 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.

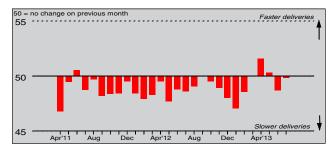


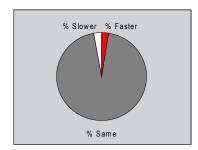


Input costs faced by manufacturers continued to rise in July, continuing the trend that has been registered in each month since data collection began in April 2011. Firms commonly reported higher raw material prices, particularly for oil-related goods, as well as unfavourable exchange rates. Overall, the rate of inflation was the strongest in five months, but nonetheless 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.

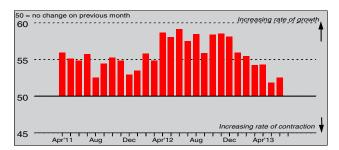




Lead times for inputs lengthened for the second successive month in July. Anecdotal evidence suggested that some suppliers faced difficulty in sourcing key raw materials in the latest survey period. However, the latest deterioration in overall vendor performance was only slight, with the seasonally adjusted Suppliers' Delivery Times Index posting only marginally below the 50.0 no-change threshold.

Quantity of Purchases Index

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

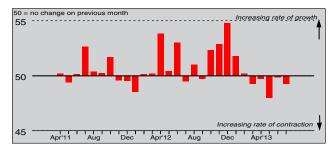


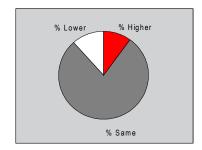


The quantity of purchases bought by manufacturing companies was unchanged in July from one month previously. This was indicated by the seasonally adjusted Quantity of Purchases Index posting exactly at the 50.0 no-change level. The stagnant trend for purchasing activity followed increases in each month since data collection began in April 2011.

Stocks of Purchases Index

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





Input inventories at Mexican manufacturers were depleted for the fifth consecutive month in July. Although the rate of contraction was only marginal, it was nonetheless the joint second-fastest since January 2012 (matching that seen in March). Where lower stocks of purchases were reported, firms generally commented on weak client demand and the subsequent easing trend for new orders.

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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