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HSBC Mexico Manufacturing PMI™

PMI signals slight manufacturing expansion

Key findings:

- PMI returns above the 50.0 no-change threshold in August
- Marginal increase in output reverses downward trend seen in July
- Input price inflation eases

Manufacturing business conditions improved in August, but the rate of growth was only marginal and followed a contraction in July. Both output and new orders increased over the month, with firms generally citing greater demand. However, the rates of growth were much weaker than the respective series averages. On the price front, input costs rose strongly, although the rate of inflation slowed, while output charges fell moderately.

The headline figure derived from the survey is the Manufacturing *Purchasing Managers' IndexTM* (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.

The seasonally adjusted HSBC Mexico Manufacturing PMI returned above the 50.0 no-change mark in August, signalling an improvement in business conditions. However, at 50.8, up from 49.7 in July, the index was the second-lowest in the 29-month series history and consistent with only a marginal expansion.

Mexican manufacturers received a larger volume of new work in August. However, the increase largely reflected higher domestic orders, as new export work fell for the fourth consecutive month.

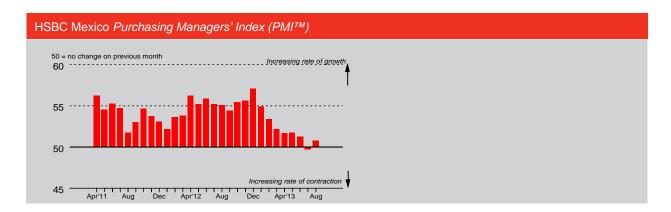
Although the overall rate of new order growth was the strongest in three months, it was much weaker than the series average.

Firms raised production in light of higher new work requirements. That said, the increase in output followed a reduction in July. Concurrently, stocks of finished goods were depleted, following two months of inventory accumulation, and backlogs of work fell further.

The quantity of inputs bought by manufacturing companies increased in August, with the latest rise the strongest since April. Meanwhile, stocks of purchases were reduced at the fastest pace since data collection began in April 2011. Concurrently, suppliers' delivery times lengthened, although the latest deterioration in vendor performance was only slight.

Manufacturing employment in Mexico increased in August, with approximately 8% of surveyed companies hiring additional staff since July. Overall, the rate of job creation was marginal and the second-weakest for 19 months.

Input prices rose strongly during August, with panellists particularly mentioning higher raw material costs. That said, the rate of inflation eased slightly since July. In contrast, output charges fell for the fifth successive month. A number of firms reduced their selling prices in an attempt to win new business.



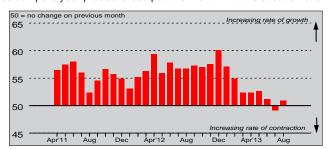
The HSBC Mexico Purchasing Managers' Index[™] (PMI[™]) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

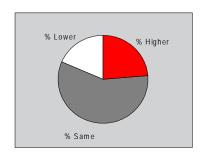




Output Index

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

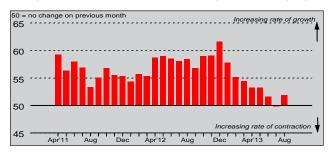


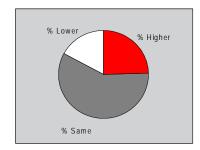


Following a reduction in July, production in the Mexican manufacturing sector increased in August. This was signalled by the seasonally adjusted Output Index returning above the 50.0 no-change mark. However, the index was the second-lowest in the 29-month series history and consistent with only a marginal rate of output growth. Where higher levels of output were recorded, firms generally linked this to increased new orders.

New Orders Index

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

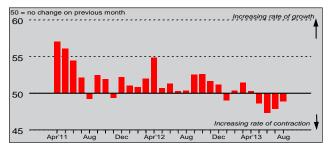


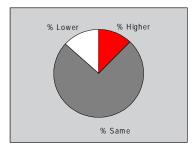


Mexican manufacturers received a larger volume of new orders in August. Approximately one-in-four survey respondents reported an increase in new work, often linking this to greater client demand and new product launches. Overall, the rate of new order growth was modest and the fastest in three months, but much slower than the series average.

New Export Orders Index

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

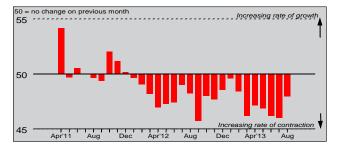


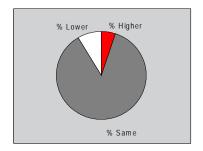


The volume of new export orders placed at manufacturing companies fell further during August. Anecdotal evidence provided by survey respondents generally attributed the decline to weak global economic conditions. New export work fell modestly since July but, having eased for the second month running, the rate of contraction was the weakest in the current four-month sequence of decline.

Backlogs of Work Index

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

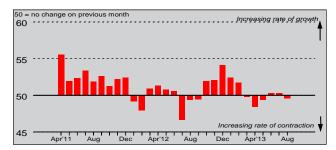


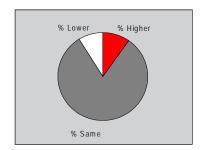


Outstanding business at Mexican manufacturing companies continued to fall in August, taking the current sequence of decline to 20 months. Approximately 9% of panellists reported a lower level of work-in-hand, compared with 5% that registered an increase, and generally linked the decline to the weak new orders trend. Although the overall rate of backlog depletion was moderate, it was nonetheless the weakest since February.

Stocks of Finished Goods Index

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

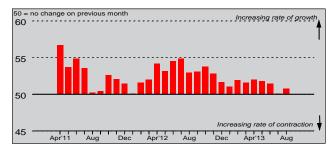


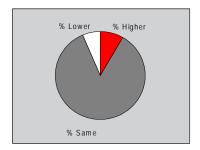


After adjusting for seasonal variation, the Stocks of Finished Goods Index posted below the 50.0 no-change mark that separates growth from contraction in August. This signalled lower inventory levels in the Mexican manufacturing industry. Although the rate of decline was only marginal, it was in contrast to increases in the previous two months.

Employment Index

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

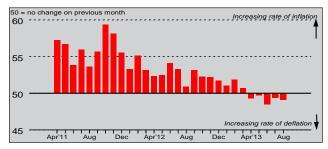


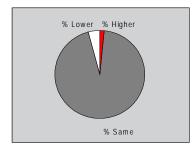


Employment in the Mexican manufacturing sector increased only marginally in August, after having remained broadly unchanged in July. The rate of job creation was the second-slowest for 19 months. Approximately 8% of survey respondents hired additional staff over the month (while 6% reduced their workforces), with a number of panellists linking this to higher production requirements.

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.

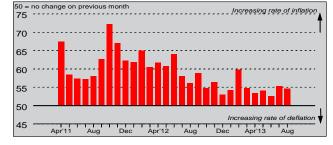


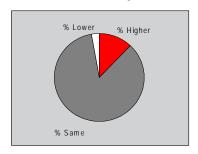


Average prices charged by manufacturing firms fell for the fifth consecutive month during August. Although the latest reduction in output charges was modest, the rate of decline was faster than in July. According to anecdotal evidence, a number of respondents offered discounts to clients in an attempt to increase sales.

Input Prices Index

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

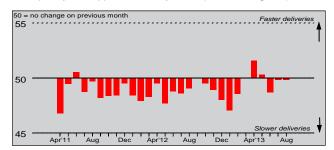


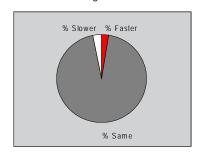


Mexican manufacturers faced higher input costs in August. The rate of input price inflation was still strong, but weaker than in the previous survey period and much slower than the series average. Where an increase in costs was signalled, panellists commented on higher raw material costs, particularly for metal goods, as well as unfavourable exchange rates.

Suppliers' Delivery Times Index

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

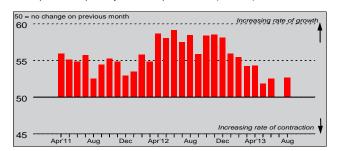


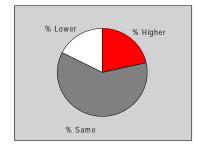


Suppliers' delivery times lengthened for the third month running in August. However, the seasonally adjusted Suppliers' Delivery Times Index, unchanged from July, posted slightly below the 50.0 no-change mark, suggesting that lead times increased only marginally. A number of respondents linked the latest deterioration in vendor performance to recent shipment delays.

Quantity of Purchases Index

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

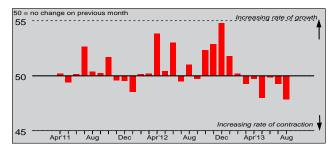


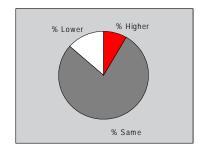


The quantity of purchases bought by Mexican manufacturers rose modestly during August. The increase in buying activity followed a stagnant trend one month previously. Moreover, the rate of growth was the fastest in four months. Where larger purchasing volumes were reported, monitored companies generally attributed this to higher production levels.

Stocks of Purchases Index

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





Pre-production inventories at Mexican manufacturing firms fell for the sixth successive month in August. The rate of decline was solid and the sharpest since data collection began in April 2011. Approximately 14% of the panellists reported a reduction in input stocks in the latest survey period, compared with 8% that recorded an accumulation.

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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