HSBC Mexico Manufacturing PMI™

Manufacturing PMI drops to three-month low in February

Summary

Mexican manufacturing companies indicated further strong rises in production and new business volumes during February, but both rates of expansion eased since the previous month. Staffing levels continued to increase during the latest survey period, with the pace of job creation the second-fastest since November 2012. Meanwhile, input price inflation accelerated to its sharpest for over two-and-a-half years, which firms mainly linked to higher costs for imported raw materials.

The headline figure derived from the survey is the Manufacturing Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement 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 54.4 in February, down from 56.6 in January, the seasonally adjusted HSBC Mexico Manufacturing PMI registered above the neutral 50.0 threshold for the seventeenth successive month. The latest reading was the lowest since November 2014, but still signalled a solid improvement in overall business conditions.

Slower rates of output and new orders growth were the main factors weighing on the headline PMI reading in February. Although still strong, the latest upturn in production levels was the slowest for four months, while the rate of new business growth moderated to its least marked since November 2014. Nonetheless, new orders from abroad increased at a slightly faster pace in February, with some manufacturers noting that exchange rate depreciation had a positive influence on export sales.

Sustained rises in production levels, alongside confidence towards the business outlook, underpinned a further increase in manufacturing employment during February. Although the pace of job creation eased slightly since January, the latest upturn was still one of the fastest seen for over two years.

February data suggested a greater degree of caution among manufacturers in terms of purchasing activity and inventories at their plants. Input buying rose at the slowest pace for five months, while stocks of finished goods were accumulated at the weakest rate since November 2014. Slower growth of purchasing activity in turn contributed to an improvement in suppliers' delivery times for the first time in 11 months.

Average cost burdens rose at a sharp and accelerated pace during February. Input cost inflation has now picked up for three months running, with the latest reading the strongest since June 2012. Survey respondents noted that exchange rate depreciation had pushed up the cost of imported raw materials. Meanwhile, output charges increased again in February, and at the fastest pace for three years.

Comment

Commenting on the Mexico Manufacturing *PMI*™ survey, Tim Moore, Senior Economist at Markit said:

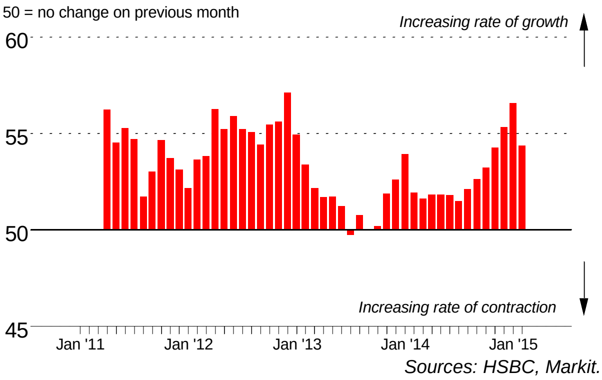
"February's survey highlights a setback for the Mexican manufacturing sector after the growth surge seen at the beginning of 2015. However, job creation was still close to its strongest for two years, suggesting that manufacturers remain optimistic towards the longer-term business outlook. Improving U.S. economic conditions and the weaker peso exchange rate should bolster the manufacturing sector in the coming months."

Key points

- Output growth eases from January's 25-month high
- Solid rate of job creation maintained in February
- Input cost inflation accelerates to its fastest since June 2012

Historical Overview

HSBC Mexico Manufacturing *PMI*™



Sources: HSBC, Markit.

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Notes to Editors:

The HSBC Mexico Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Mexican 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: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics