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The HSBC Brazil Manufacturing PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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HSBC Brazil Manufacturing PMI

PMI signalled recovery in Brazil's manufacturing sector after ten months of contraction.

Key findings:

- Output rose at fastest pace since July 2008.
- New orders expanded for first time in a year.
- Employment broadly unchanged since July.

The Brazilian manufacturing economy took another step on the road to recovery in August. The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – registered in positive territory for the first time in almost a year, signalling an improvement in the health of the industry. However, at 50.6, the PMI indicated only a marginal strengthening of operating conditions. Underpinning the rise in the headline index were upward trends in four of the five component indices (*note: the Suppliers' Delivery Times Index is inverted in the calculation of the PMI*).

Incoming new business to Brazil's manufacturing industry expanded in August for the first time in a year. Although the rate of increase was only modest, it was the fastest since July 2008. Data showed that growth of new work was centred on the domestic market, as new export orders continued to fall. Gains in total new orders were largely underpinned by improved economic conditions. Investments in new equipment (which led to better quality goods being produced), and the launch of new products were also commented on by panellists. However, data indicated that part of the rise in new work was supported by price discounting.

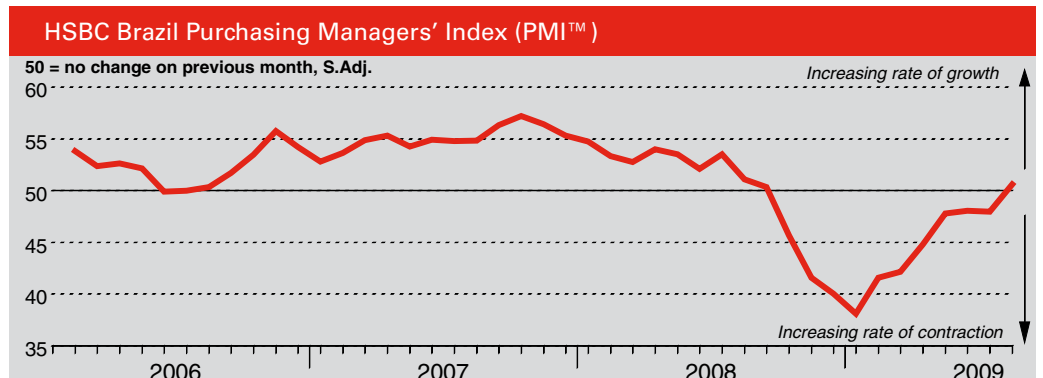
Competition forced manufacturers to cut their tariffs

in August, and charges fell at a solid rate as a result. Meanwhile, average purchasing costs decreased only fractionally and at the weakest pace of the current sequence. The easing in the rate of decline reflected panel member reports that prices for certain commodities had risen.

In line with the upward trend in new orders, Brazilian manufacturers raised both their production levels and their buying activity, the latter for the first time in a year. However, output growth was moderate, while input purchases increased only marginally, and not fast enough to add to stocks of raw materials. Pre-production inventories contracted rapidly and at an accelerated pace as firms pursued cost-minimising stock-depletion policies.

Capacity pressures were felt by both Brazilian manufacturers and their suppliers in August. Backlogs of work at manufacturing plants built up slightly after twelve months of decline, while lead times lengthened for the first time since last October. However, some respondents attributed the latter to a poor quality of service from vendors.

Employment across Brazil's manufacturing sector was broadly unchanged in August. Cost savings and productivity gains were the primary reasons for job shedding where it was reported. The main factor cited by firms noting an increase in staffing numbers was greater production requirements.

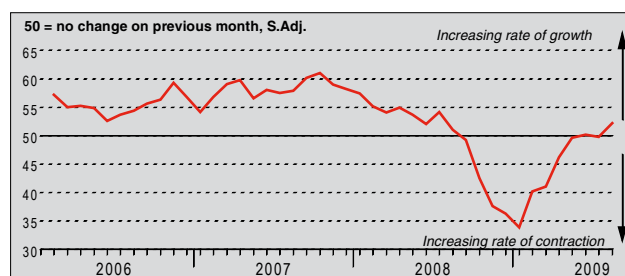


The HSBC Brazil Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	16.3	49.1	34.7	-18.4
	Apr	27.2	42.6	30.2	-3.1
	May	30.9	45.2	23.9	7.0
	Jun	21.8	59.1	19.2	2.6
	Jul	17.6	64.4	18.0	-0.3
	Aug	31.9	48.2	19.9	12.0

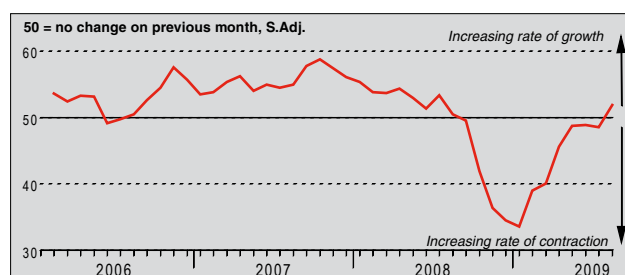


Brazilian manufacturing production rose during August for the second time in three months. Unlike in June – the last time growth was recorded – the increase was stimulated by new order growth rather than a depletion of outstanding business. Although the rate of expansion was only moderate, it was the fastest since July 2008. Approximately 32% of companies raised their activity levels over the month, up from less than 18% in July.

New Orders Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	17.0	49.7	33.3	-16.4
	Apr	28.1	40.3	31.6	-3.5
	May	28.4	42.9	28.7	-0.3
	Jun	22.1	54.1	23.8	-1.7
	Jul	17.5	61.6	20.9	-3.4
	Aug	35.2	40.3	24.5	10.7

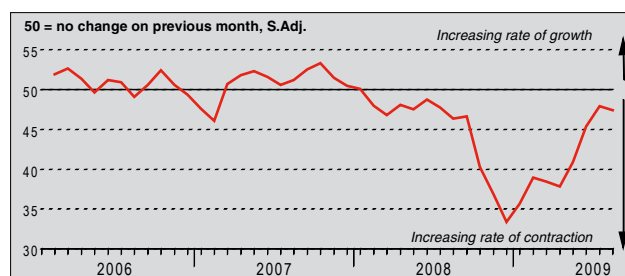


The seasonally adjusted New Orders Index rose above the no-change threshold of 50.0 in August for the first time in a year. The latest reading pointed to a modest increase in total new work taken by manufacturers in Brazil. Growth was centred on the home market, as new export orders continued to fall. Panel members commonly cited improved domestic economic conditions as a major influence on new business volumes. Some firms also noted that investments in new equipment (leading to the manufacture of better quality goods) and the launch of new products had also

New Export Orders Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.2	61.0	31.8	-24.6
	Apr	11.7	53.5	34.7	-23.0
	May	10.5	61.6	27.9	-17.4
	Jun	11.9	69.9	18.1	-6.2
	Jul	18.0	64.3	17.6	0.4
	Aug	14.7	63.5	21.8	-7.1

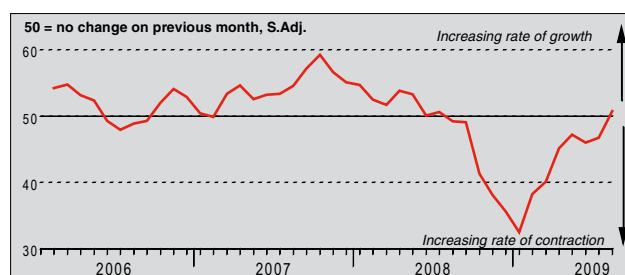


External sales volumes continued to fall across Brazil's manufacturing economy during August. Incoming new work from abroad contracted for the nineteenth month in a row, and at a slightly accelerated pace. Many companies blamed subdued demand in key markets, linked to the global financial and economic crises for the latest decline. Panel members also commented on unfavourable exchange rates. That said, the decrease was only moderate and less severe than the average for the current contractionary sequence.

Backlogs of Work Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	13.8	54.5	31.7	-17.9
	Apr	24.1	45.9	30.0	-5.9
	May	24.7	47.9	27.4	-2.7
	Jun	16.9	59.3	23.7	-6.8
	Jul	17.0	62.2	20.8	-3.8
	Aug	29.2	50.0	20.8	8.4

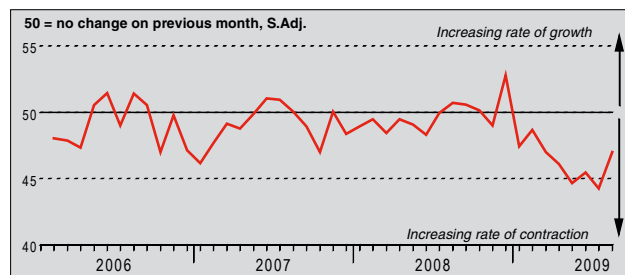


Work-in-hand at Brazilian manufacturing plants built up during August for the first time in over a year. Pressure on capacity primarily stemmed from a recovery of new order growth. That said, outstanding business accumulated at only a weak pace over the month; the seasonally adjusted Backlogs of Work Index registered just above the neutral mark of 50.0. This suggests that workloads remained broadly manageable over the latest survey period.

Stocks of Finished Goods Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	17.5	57.8	24.8	-7.3
	Apr	19.3	52.2	28.5	-9.2
	May	20.3	48.0	31.8	-11.5
	Jun	13.9	65.2	20.9	-7.0
	Jul	9.6	72.3	18.2	-8.6
	Aug	20.7	56.9	22.4	-1.7

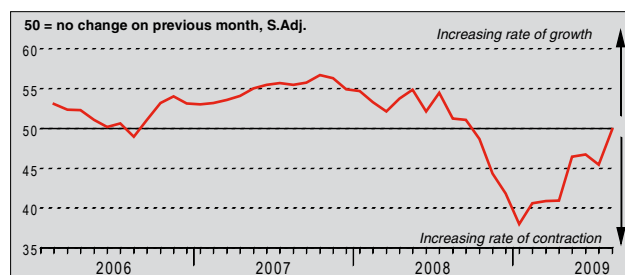


In spite of higher new order levels, Brazilian manufacturers continued to run down their holdings of finished goods during August. Post-production inventories decreased for the eighth consecutive month as companies pursued stock-depletion initiatives to minimise costs. However, the rate of decline slowed since July to only a modest pace. Furthermore, the latest drop in inventories was the mildest recorded by the survey since March.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.2	67.7	25.1	-17.9
	Apr	10.5	63.6	25.9	-15.4
	May	14.1	67.8	18.1	-3.9
	Jun	8.1	76.9	15.0	-6.8
	Jul	7.1	77.6	15.3	-8.2
	Aug	13.3	73.8	13.0	0.3

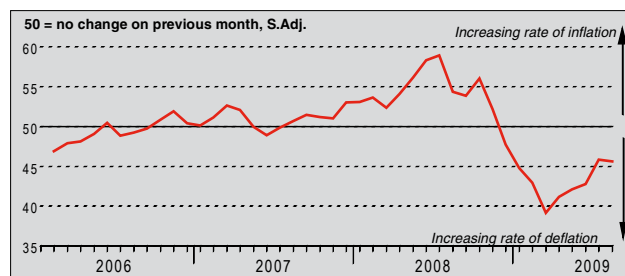


Staffing numbers at Brazilian manufacturers were broadly unchanged in August from July's levels. After accounting for seasonal variations, the Employment Index registered just below the neutral mark of 50.0. The index has not posted above the no-change threshold for eleven months. Reports indicated that cost-cutting and efficiency gains were the primary reasons for job shedding, whereas greater production requirements underlay decisions to hire more workers.

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.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	3.5	70.4	26.1	-22.6
	Apr	8.5	66.6	24.9	-16.4
	May	6.7	72.5	20.8	-14.1
	Jun	3.9	78.8	17.3	-13.4
	Jul	4.8	82.5	12.7	-7.9
	Aug	8.4	74.3	17.2	-8.8

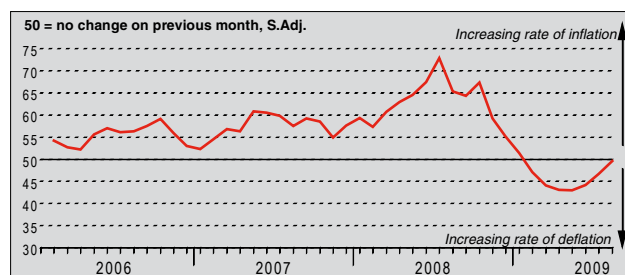


Prices charged for Brazilian manufactures decreased solidly in August, extending the current period of decline to nine months. Over 17% of the survey panel cut their tariffs. Although factory gate prices were discounted at a slightly faster pace than in July, the rate of reduction remained weaker than the average for the sequence. Anecdotal evidence suggested that lower cost burdens were passed on to customers in order to remain competitive.

Input Prices Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.8	71.7	20.6	-12.8
	Apr	11.8	61.2	27.0	-15.2
	May	11.9	65.2	22.8	-10.9
	Jun	6.8	76.6	16.6	-9.7
	Jul	7.4	81.1	11.4	-4.0
	Aug	16.9	67.4	15.6	1.3

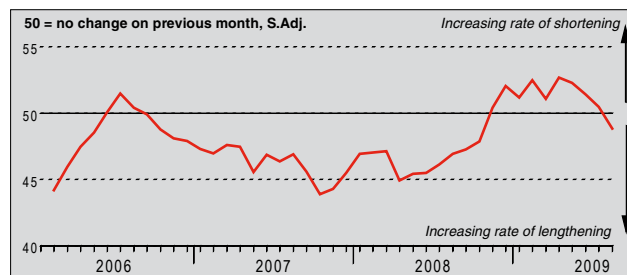


Average purchasing costs fell only fractionally during the latest survey period. The rate of descent eased for the third successive month from May's record to the weakest of the current seven-month sequence of falls. The slowdown in the rate of decline reflected reports by numerous respondents that prices for certain commodities had increased. Where input costs decreased, panel members noted lower raw material prices, which partly resulted from cheaper imports due to a weak US dollar.

Suppliers' Delivery Times Index

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

		Faster %	Same %	Slower %	Net +/-
2009	Mar	11.2	81.1	7.8	3.4
	Apr	13.9	79.9	6.2	7.7
	May	10.8	83.0	6.2	4.6
	Jun	6.8	89.9	3.2	3.6
	Jul	6.4	88.2	5.4	1.0
	Aug	7.3	83.1	9.6	-2.3

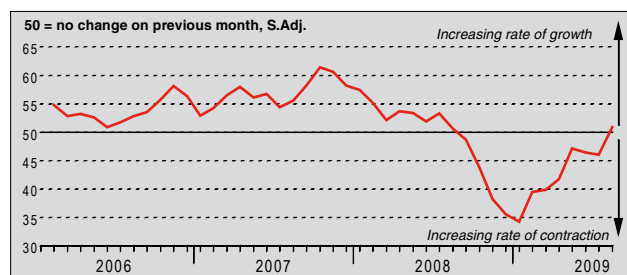


After nine straight months of improvement, average vendor performance across Brazil's manufacturing economy worsened in August. Data showed that lead times lengthened slightly as greater demand for raw materials put pressure on suppliers' capacity. Some companies, however, noted that longer delivery times resulted from a poor quality of service on the part of vendors. Even so, the rate of deterioration was less marked than the historic trend for the series.

Quantity of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	15.6	50.2	34.3	-18.7
	Apr	22.2	42.9	34.9	-12.7
	May	26.6	44.9	28.5	-2.0
	Jun	17.9	58.1	24.0	-6.2
	Jul	15.2	63.5	21.3	-6.1
	Aug	31.6	44.9	23.6	8.0

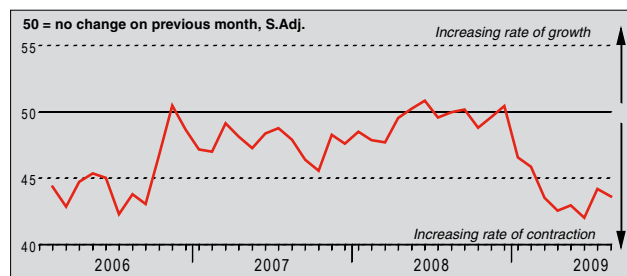


In line with the upward trend in incoming new business, Brazilian manufacturers increased the quantity of their purchases during August. It was the first time that buying activity in the sector had risen for a year. Although only slight, the rate of growth was the fastest since July 2008. Around 32% of survey members bought more raw materials than in July, compared with under 24% that cut their purchasing. Where input buying was decreased, it was mainly because of stock-depletion policies.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	Mar	14.1	57.8	28.1	-14.1
	Apr	15.5	52.8	31.7	-16.1
	May	17.6	50.2	32.2	-14.6
	Jun	9.4	66.1	24.4	-15.0
	Jul	7.1	74.6	18.3	-11.2
	Aug	15.3	58.5	26.2	-10.9



Pre-production inventories continued to be depleted at a rapid pace during the latest survey period. Moreover, the rate of decline accelerated since July. Companies implemented stock-reduction initiatives as a means of minimising costs. More than 26% of respondents used existing holdings of raw materials to meet production requirements without replenishing stocks. This is against around 15% that saw their inventories build up over the month.

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 over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Brazilian Industrial Production. 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.

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