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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

Recovery in Brazil's manufacturing economy gained traction in September.

### Key findings:

- Growth of new orders and output accelerated.
- Employment rose for the first time in a year.
- Input price inflation recorded after seven months of declining costs.

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 – continued to climb in September, reaching its highest level since July 2008. At 52.3, up from 50.6 in August, the headline index pointed to a moderate improvement in business conditions across Brazil's manufacturing economy.

Supporting the latest rise in the PMI were improvements in all five of its component indices (note, the Suppliers' Delivery Times Index is inverted in constructing the PMI). Output and new order growth accelerated to fourteen- and seventeen-month highs respectively, while employment expanded for the first time in a year. Concurrently, pre-production stocks contracted at the weakest rate of the current nine-month sequence.

Both domestic and foreign demand for Brazilian manufactures rose during the latest survey period – export sales for the first time since January 2008. Consequently, total incoming new work expanded at an accelerated pace. Firms linked gains in new business and improved economic conditions and successful promotional activities. To accommodate the rise in new orders, manufacturers raised production levels. Output grew for the second straight month and at a solid pace.

Data indicated a further build-up of pressure on manufacturers' capacities during September. Backlogs of work accumulated at an accelerated pace, while

employment increased for the first time since September last year. However, job creation remained subdued in relation to the series' pre-crisis trend.

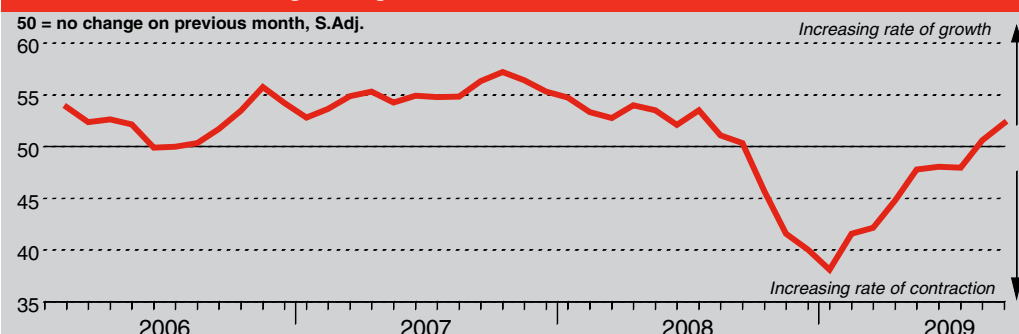
As demand for their goods strengthened in September, Brazilian manufacturers raised buying activity for the second consecutive month and at a faster pace. However, this rise in raw material purchases was not sufficient to build additional input stocks. Pre-production inventories fell at a modest pace, extending the current period of contraction to nine months. That said, the rate of decline eased sharply since August.

Brazilian manufacturers noted that vendor performance worsened during September, albeit more slowly than the series' long run average. Lead times lengthened at a slightly faster pace as demand for raw materials grew.

For the first time since January, manufacturers reported higher purchasing costs. Inflation was solid and the most marked since last December. Greater raw material, particularly steel, expenses underpinned the increase. Even so, the rise was subdued by historical standards.

Despite higher input costs, Brazil manufacturers continued to reduce their charges in September, which firms linked to strong competition. However, the latest decrease was only marginal and the mildest of the current ten-month sequence of decline.

HSBC Brazil Purchasing Managers' Index (PMI™)

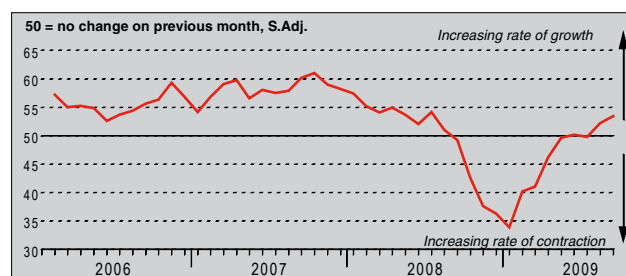


The HSBC Brazil Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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 +/-
<b>2009</b>	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
	Sep	24.5	64.2	11.3	13.1

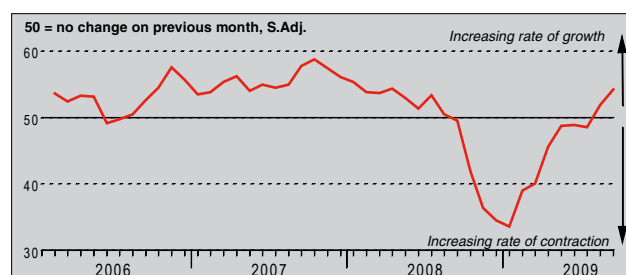


Brazilian manufacturing output expanded during September for the third time in four months. Moreover, the rate of increase accelerated to the fastest since July last year. Around one-quarter of panellists raised production, mainly as a result of greater new order numbers. In contrast, only around 11% of firms cut their activity – the lowest proportion for a year. Although growth was solid, it remained muted in relation to the trend seen prior to last autumn’s global financial crisis.

### 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 +/-
<b>2009</b>	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
	Sep	28.6	59.8	11.6	17.0

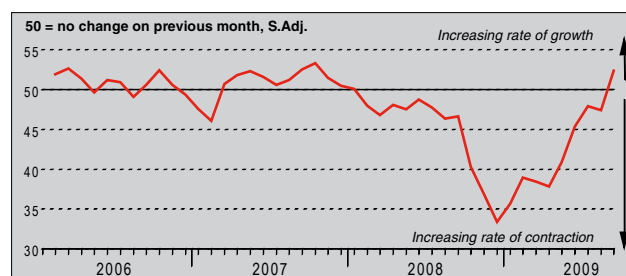


Overall volumes of new business placed with Brazilian manufacturers rose since August. September’s seasonally adjusted New Orders Index reading was the highest for seventeen months and reflected improvements in both domestic and export demand. The latest figure pointed to a solid, and accelerated, increase in new work. Panel members linked continued growth to better economic conditions at home and abroad, as well as successful advertising campaigns.

### 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 +/-
<b>2009</b>	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
	Sep	16.8	72.8	10.3	6.5

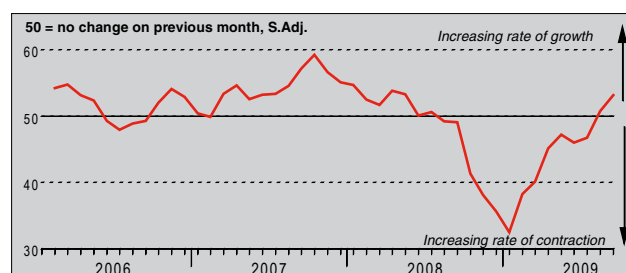


Incoming new work to Brazilian manufacturers from abroad expanded during the latest survey period. It was the first time since January 2008 that companies in the sector had received more new export business. With around 17% of respondents noting better foreign demand in September, growth was solid and above the historical trend for the series. Only about one-tenth of companies saw new export orders fall, down from approximately 22% in August.

### 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 +/-
<b>2009</b>	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
	Sep	25.8	61.3	12.9	12.9

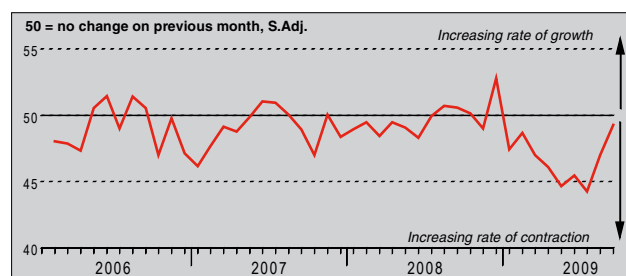


In line with the trend in new orders, unfinished business at Brazilian manufacturing plants accumulated for the second month running during September. After accounting for seasonal variability, the Backlogs of Work Index climbed to a sixteen-month high to indicate a solid rate of increase. Over one-quarter of survey participants saw a build-up of work-in-hand since August. Some reports indicated that delays in production were caused by shipment problems.

## 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 +/-
<b>2009</b>	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
	Sep	14.8	71.5	13.7	1.1

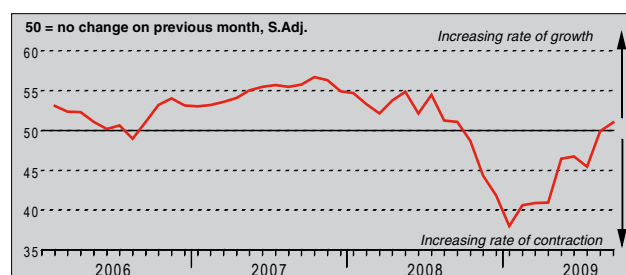


Higher sales levels left Brazilian manufacturers with depleted stocks of finished goods in September. Post-production inventories have fallen during every survey period since January, although the rate of decrease has slowed over the past two months. The latest drop was only marginal and the mildest of the current nine-month contractionary period. Some reports indicated that holdings were allowed to fall in order to reduce costs.

## Employment Index

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

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	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
	Sep	9.3	86.5	4.3	5.0

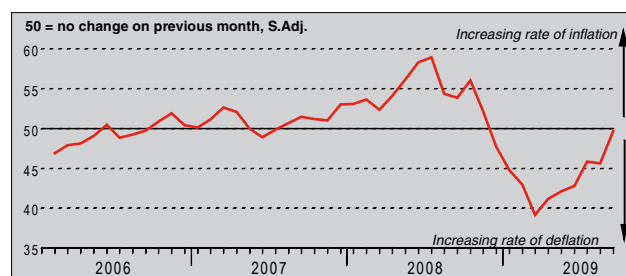


For the first time in a year, Brazilian manufacturers added to their workforces during September. The expansion reflected greater workloads and improved demand conditions in the sector. However, the rate of job creation was subdued in comparison to the trend prior to the October 2008 – August 2009 downturn. The seasonally adjusted Employment Index registered at a level consistent with a modest rise in staffing numbers.

## 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 +/-
<b>2009</b>	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
	Sep	7.5	84.6	7.9	-0.4

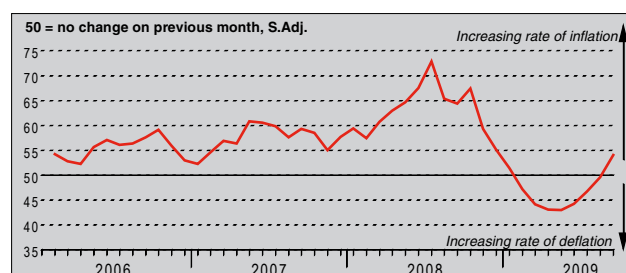


Average prices charged by Brazilian manufacturers for their goods fell only fractionally in September. The seasonally adjusted Output Prices Index rose since August to a ten-month high. Just under 8% of panel members cut their rates, down from over 17% one month earlier. The vast majority of firms (approximately 85%) left factory gate prices unchanged since August. Anecdotal evidence suggested that competition continued to prevent firms from raising their tariffs.

## 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 +/-
<b>2009</b>	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
	Sep	16.0	80.9	3.2	12.8

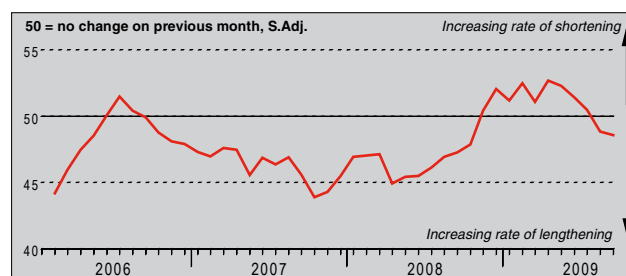


Brazilian manufacturers reported input price inflation for the first time in eight months during the latest survey period. Moreover, the rate of increase was marked and the fastest since December last year. Only around 3% of companies noted reduced cost burdens in September, while 16% faced rising raw material expenses. Companies frequently mentioned greater steel costs, although carbon and honey prices were also commented on. However, inflation remained weaker than its long-run average.

## 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 +/-
<b>2009</b>	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
	Sep	4.6	87.6	7.8	-3.2

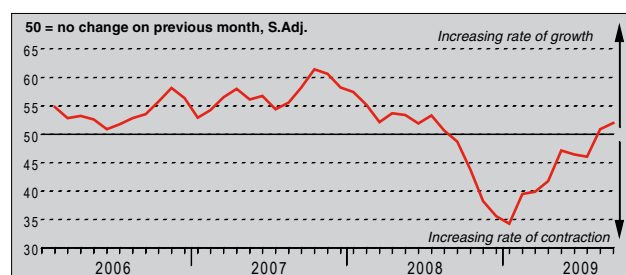


Stronger demand for raw materials at Brazilian manufacturers put additional pressure on vendors' capacities during September. Lead times lengthened for the second straight month as a result, and to a greater degree than in August. Even so, the deterioration in average supplier performance was only modest, and weaker than its long-term trend. Most of the survey panel (around 88%) saw no difference in supplier delivery times.

## 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 +/-
<b>2009</b>	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
	Sep	23.1	61.6	15.3	7.8

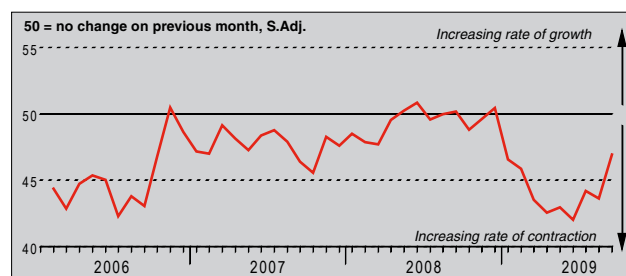


For the second month running during September, Brazilian manufacturers raised the quantity of their input purchases. Furthermore, growth accelerated to a moderate pace as new order numbers expanded. Over 23% of respondents bought more raw materials in order to accommodate higher production levels. Only around 15% of companies reduced their buying activity since August. However, compared to the pre-downturn trend, the latest increase was relatively subdued.

## Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	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
	Sep	11.4	73.9	14.6	-3.2



The latest rise in buying activity was not sufficient to build additional stocks of raw materials at Brazilian manufacturing units. As a result, pre-production inventories continued to fall during the latest survey period. However, with less than 15% of survey members allowing their holdings to decrease, and over 11% accumulating inputs, the rate of contraction slowed sharply to only a moderate pace. September's decline was the least marked of the current nine-month sequence.

## 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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