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HSBC Brazil Manufacturing PMI

PMI driven to highest level for two years by faster expansions in output, new order and employment.

Key findings:

- Output and new orders rose sharply.
- Job creation accelerated to robust pace.
- Input price inflation remained robust while charges were broadly unchanged.

Latest findings from the HSBC Brazil Manufacturing PMI Survey showed another improvement in overall business conditions in November. Compared to the previous month, growth rates of production, new orders and employment all accelerated. Moreover, companies raised the quantity of their raw material purchases, although not enough to rebuild inventories. Inflationary pressure on manufacturers' input costs remained robust, while firms largely held their charges steady since October.

The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – continued its upward trend in November, hitting a two-year high. At 55.5, up from 53.7 in October, the PMI signalled a marked expansion of Brazil's manufacturing economy. Furthermore, the latest reading was above the average for the series until September 2008, prior to the recent downturn caused by the global financial and economic crises.

Underlying demand for Brazilian manufactures increased during November, as indicated by a sharp rise in total new business. Data indicated that growth primarily stemmed from the domestic market, as new export orders were largely unchanged on the month. Companies linked improved domestic demand to better economic conditions in Brazil. Anecdotal evidence suggested that foreign demand weakened mainly as a result of a strong real

and difficult business conditions in export markets.

Mirroring the trend in overall new business, Brazilian manufacturing production expanded at a considerable pace during the latest survey period.

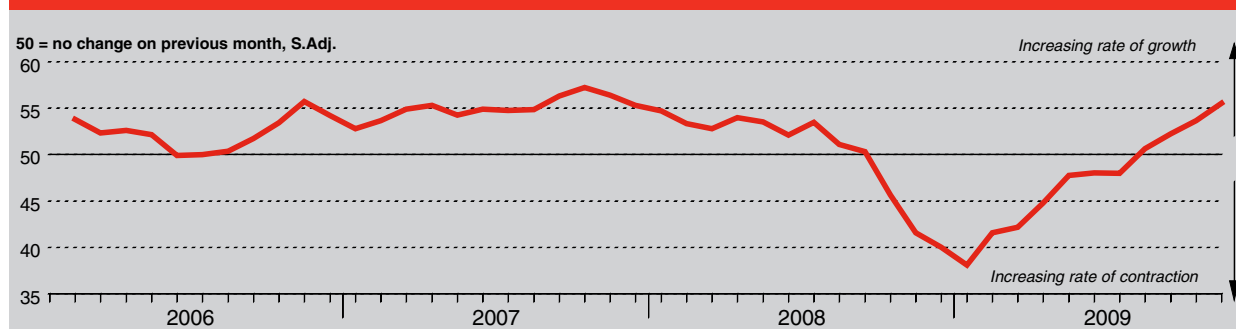
The expansionary sequence in employment extended to three months in November as production requirements grew. Brazilian manufacturers hired staff at a robust pace that was the fastest since July 2008.

Manufacturers acquired raw materials at a marked pace during November to accommodate faster production. However, the rate of increase was not enough to replenish inventory levels and pre-production stocks continued to fall at a moderate pace.

Input price inflation was unchanged from the robust pace recorded in October, but remained weaker than the series long-run trend. Higher fuel and raw material costs underpinned the increase, with panellists making particular reference to oil, metals, food and paper products prices.

Charge inflation eased to near-stagnation during November, as more firms maintained their tariffs over the month. Where respondents raised output prices, this was mainly to pass on greater cost burdens to customers. Conversely, where charges were lowered, panel members commented on competitive pressures.

HSBC Brazil Purchasing Managers' Index (PMI™)

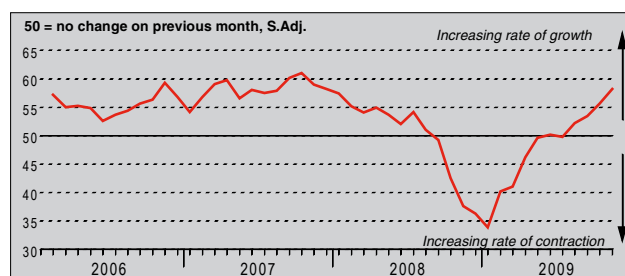


The HSBC Brazil Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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 +/-
2009	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
	Oct	25.5	66.0	8.5	17.0
	Nov	28.2	63.9	7.8	20.4

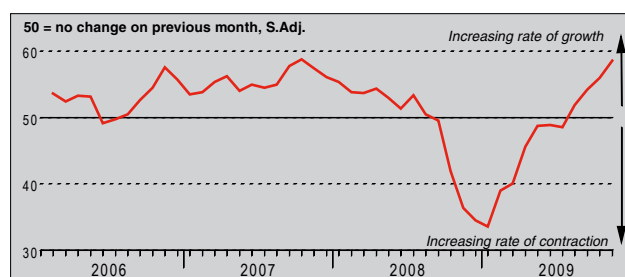


November's rise in Brazilian manufacturing activity was the most marked for almost two years. Output from the sector has been growing for four successive months and at accelerating rates. The latest increase, which was above the series' pre-downturn average, contrasted sharply with the record declines seen around the beginning of the year. Respondents indicated that a faster inflow of new work drove the expansion in production.

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	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
	Oct	25.9	64.2	9.8	16.1
	Nov	27.5	63.9	8.5	19.0

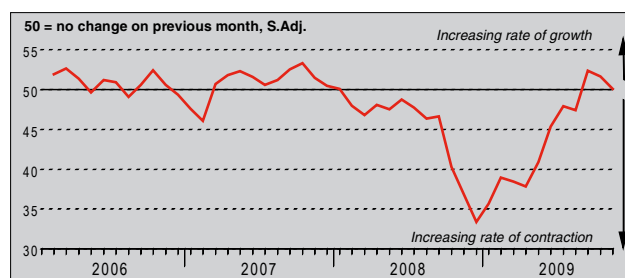


After accounting for seasonal variations, the New Orders Index climbed to its highest level since October 2007 in November. With around 28% of surveyed Brazilian manufacturers noting a rise in new business on the month, the rate of expansion was considerable. Data indicated that the main impetus to growth came from domestic sources, as incoming new work from foreign clients was virtually unchanged since October. Better economic conditions were commented on by panellists.

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	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
	Oct	13.1	77.8	9.1	4.0
	Nov	9.3	81.0	9.7	-0.4

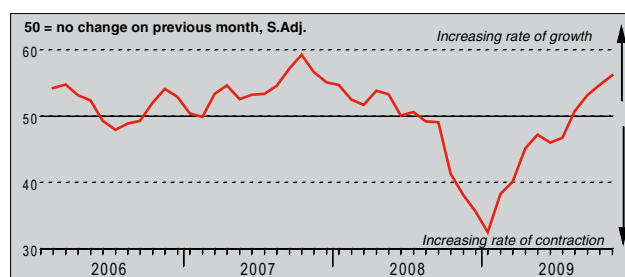


New work received by Brazilian manufacturers from foreign clients was broadly unchanged during the latest survey period. Highlighting this, the seasonally adjusted New Export Orders Index came to rest just above the no-change mark of 50.0 in November – its lowest reading for three months. Anecdotal evidence suggested that the slowdown in new export growth primarily stemmed from the relative strength of the real, although several firms also noted difficult global economic conditions.

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	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
	Oct	24.6	65.0	10.4	14.2
	Nov	23.5	68.2	8.4	15.1

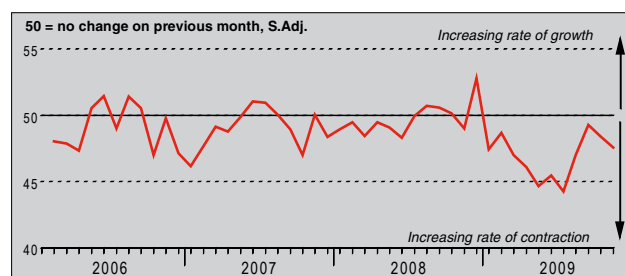


Further growth of new business put additional pressure on capacity at Brazilian manufacturing units in November. Unfinished work accumulated for the fourth month running, and at an accelerated pace. Posting its highest reading for two years, the seasonally adjusted Backlogs of Work Index signalled a strong rate of growth. Approximately 24% of panel members recorded a build-up of orders, against just 8% that saw a decline.

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	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
	Oct	9.3	76.8	13.8	-4.5
	Nov	10.8	76.8	12.4	-1.6

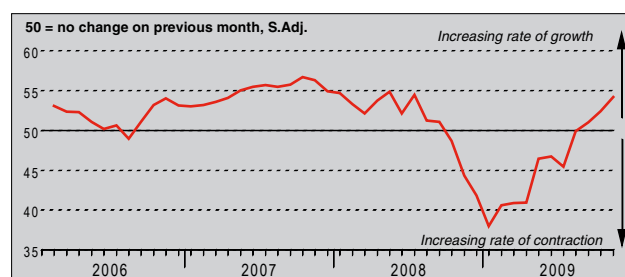


A combination of higher sales levels and inventory management policies contributed to another decline in finished goods stocks at Brazilian manufacturing units over the latest survey period. Holdings of post-production goods have fallen during every month for almost a year. The rate of decrease has accelerated over the past two months, reaching a solid pace in November. Even so, the contraction was weaker than the average for the current sequence.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	13.9	81.7	4.4	9.5
	Nov	13.8	82.1	4.1	9.7

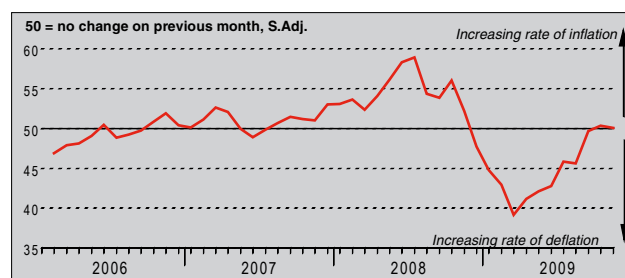


Brazilian manufacturers added to their workforces in November for the third successive month. With around 14% of respondents hiring more staff, against just 4% cutting employment, the expansion accelerated to a robust rate. Moreover, the latest round of job creation was the most marked since July 2008 and faster than the series' pre-downturn trend. Survey responses showed that the predominant reason for taking on personnel was 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.

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	7.3	87.1	5.7	1.6
	Nov	5.4	89.6	5.0	0.3

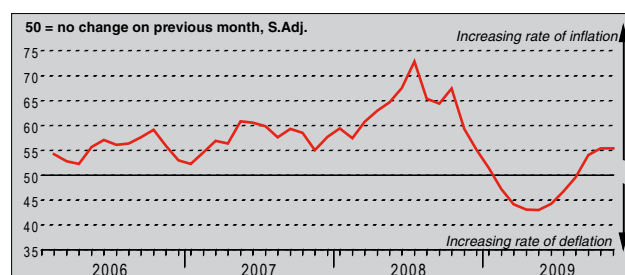


Factory gate prices across Brazil's manufacturing economy were broadly unchanged during November. Nevertheless, the seasonally adjusted Output Prices Index remained just inside positive territory for the second month in a row. Companies that raised their tariffs did so primarily to pass on greater cost burdens to customers and defend profit margins. Meanwhile, those that trimmed their charges frequently commented on competitive pressures.

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	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
	Oct	15.1	80.5	4.4	10.7
	Nov	12.9	84.2	2.8	10.1

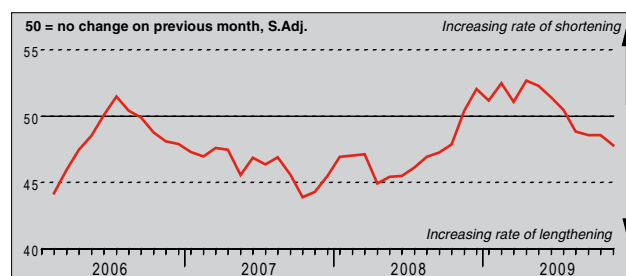


Brazilian manufacturers reported a third straight month of rising input prices in November, following a seven-month sequence of decline. Data showed that the marked rate of increase was unchanged since October. Higher fuel and raw material costs were the main source of inflation, according to panellists. Greater prices for oil, metals, food and paper products were particularly mentioned. However, inflation remained weaker than the long-run average for the series.

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	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
	Oct	4.7	88.1	7.2	-2.5
	Nov	2.2	90.0	7.8	-5.6

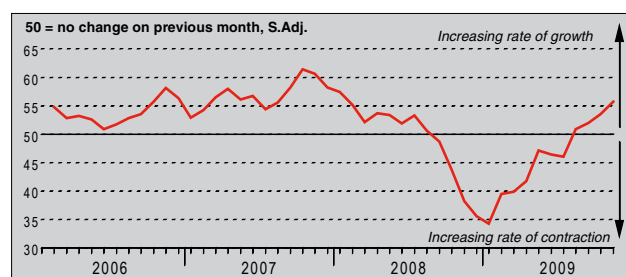


Lead times on raw material deliveries to Brazilian manufacturers continued to lengthen during November. Furthermore, the deterioration accelerated since October to a moderate pace that was the fastest for fourteen months. Average vendor performance began worsening in August, when new order levels at manufacturers started to rise. Poor domestic infrastructure also contributed to longer lead times, according to panel members. Nevertheless, the decline in supplier performance was less marked than the series' pre-crisis trend.

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	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
	Oct	22.3	68.2	9.4	12.9
	Nov	25.7	65.5	8.8	16.9

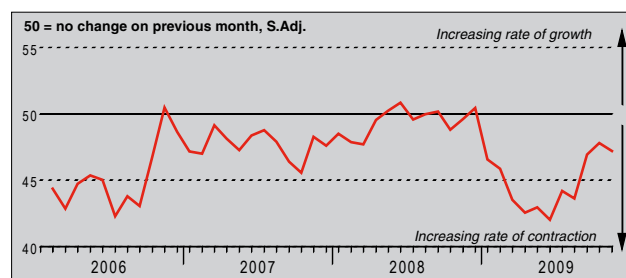


Brazilian manufacturers bought more raw materials during November, extending the current period of expansion to four months. The latest increase was marked and the fastest since January 2008, with more than one-quarter of the survey panel raising buying activity. In comparison, less than 9% of firms reduced purchasing. The seasonally adjusted Quantity of Purchases Index has risen considerably since its low in January, in line with the trend in new business.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	9.8	78.5	11.7	-1.9
	Nov	11.0	76.0	12.9	-1.9



The latest rise in input acquisitions was not sufficient to rebuild raw material stocks at Brazilian manufacturing plants in November. Firms pursued stock control initiatives as a means of managing costs. Consequently, pre-production inventories continued to be depleted at a solid pace, as indicated by a broad sideways movement in the seasonally adjusted Stocks of Purchases Index. Holdings of inputs have fallen continuously for nearly a year.

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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