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HSBC Brazil Manufacturing PMI

PMI climbed higher in December to signal robust improvement in operating conditions.

Key findings:

- Manufacturing production growth accelerated again.
- New orders rose sharply.
- Input price inflation remained solid, while charges rose faster.

The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – rose slightly since November, hitting its highest level for just over two years. The latest reading signalled a robust improvement in the health of the Brazilian manufacturing economy. Underlying this expansion were faster increases in output and employment, while new order growth remained sharp.

New work received by Brazilian manufacturers expanded at a substantial pace at the end of the final quarter, although growth slowed slightly since November. Anecdotal evidence suggested that better economic conditions had supported demand. Data indicated that growth of total new business was driven by the domestic market, as incoming new work from abroad contracted slightly on the month, which panel members linked to unfavourable exchange rates.

Substantial new order growth led Brazilian manufacturers to expand production during December. Output rose for the sixth time in seven months, and at the fastest rate since October 2007.

Unfinished business and employment both increased during the latest survey period, pointing to the existence of capacity pressures in Brazil's manufacturing industry. Staffing numbers

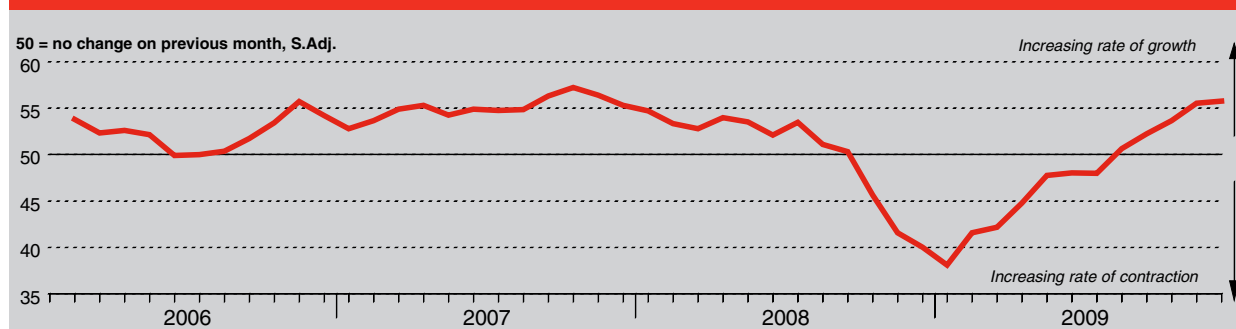
expanded at a robust rate that was the fastest for seventeen months.

Brazilian manufacturers bought more raw materials in December to accommodate higher production levels. However, the substantial rise in buying activity was not sufficient to rebuild diminished inventories, being offset by a sharper rise in output. Consequently, pre-production stocks were unchanged on the month.

Suppliers' delivery times lengthened at the end of Q4, as demand for raw materials at Brazilian manufacturers strengthened. Data showed that average vendor performance deteriorated only slightly, and at a milder rate than during November.

Both input and output prices increased during December. Input price inflation was robust and little-changed since the previous month. Purchasing costs have risen continuously since September, with firms citing greater raw material expenses. Respondents made particular reference to higher metals and plastics prices during the latest survey period. Manufacturers were able to raise their charges in December, taking advantage of favourable demand conditions. Factory gate prices increased at a pace that, although moderate, was the strongest for over a year.

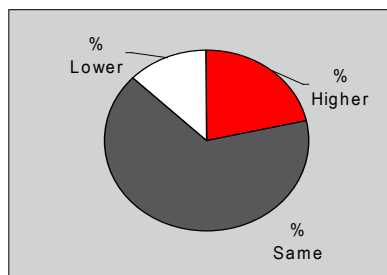
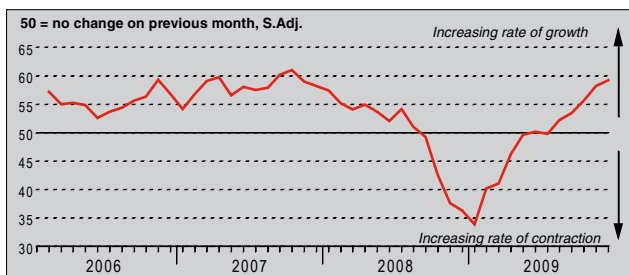
HSBC Brazil Purchasing Managers' Index (PMI™)



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

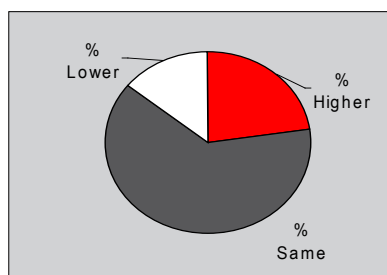
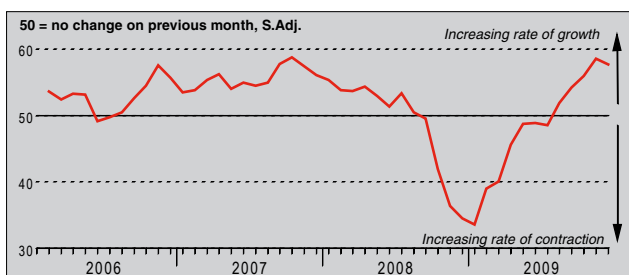
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturing output growth continued to accelerate at the end of Q4. The latest expansion was the most marked for over two years and faster than the series' pre-downturn average. Panel members attributed December's increase in production to another sharp rise in incoming new business from the domestic market. Approximately 22% of firms raised production since November, against less than 13% that cut activity levels.

New Orders Index

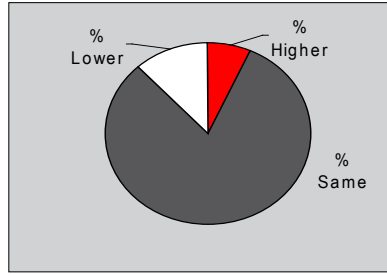
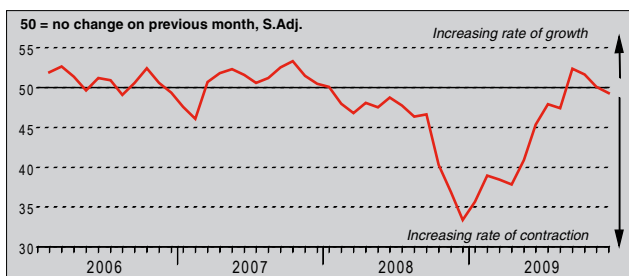
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Although down slightly from November's twenty-five month high, the seasonally adjusted New Orders Index still signalled a substantial rise in new business at Brazilian manufacturers in December. Respondents cited better economic conditions and improved demand as the principal reasons for expansion. Data indicated that growth of new work was centred on the domestic market, as incoming new work from abroad fell slightly.

New Export Orders Index

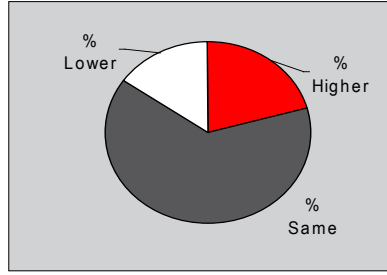
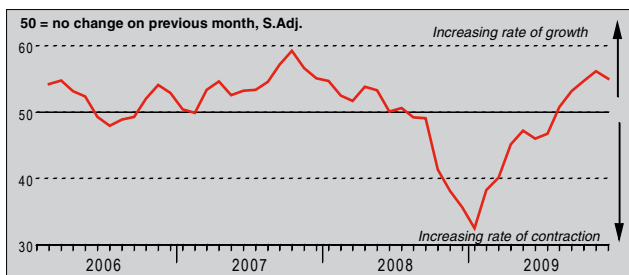
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for Brazilian manufactures declined for the first time in four months during December, which survey participants primarily linked to unfavourable exchange rates. The seasonally adjusted New Export Orders Index has fallen for three consecutive months from September's near two-year high. Even so, the latest index figure signalled only a weak contraction that was far less severe than the average for the year-to-date.

Backlogs of Work Index

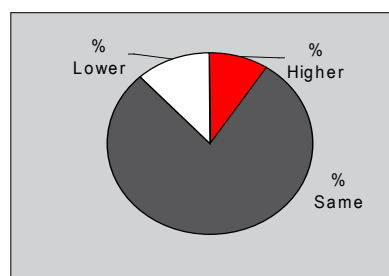
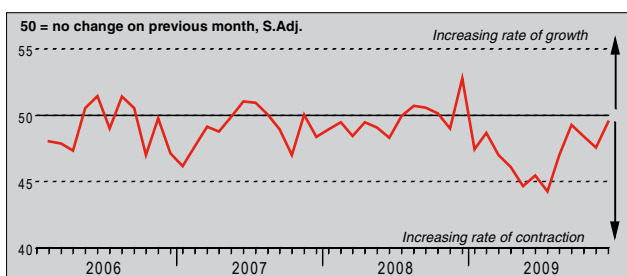
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



December data continued to signal capacity pressures at Brazilian manufacturers. After accounting for seasonal variation, the Backlogs of Work Index posted above the neutral threshold of 50.0 for the fifth month in succession. Although the index slipped slightly since November, it remained at a level indicative of a marked rate of backlog accumulation. Reports indicated that greater volumes of new business caused the build-up of unfinished work.

Stocks of Finished Goods Index

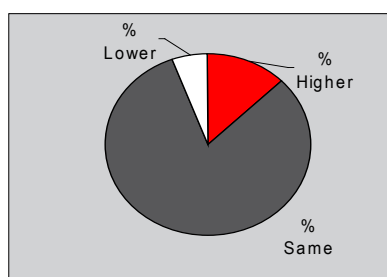
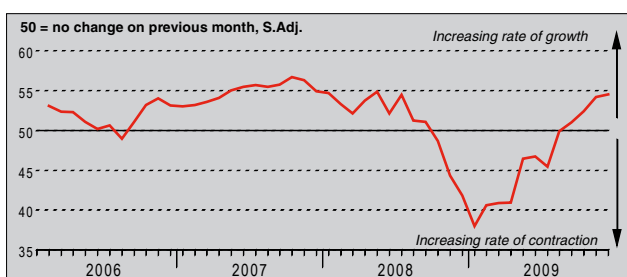
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



December marked one year of continuously falling finished goods stocks at Brazilian manufacturers. Higher-than-expected sales levels was the main factor behind the latest contraction, according to respondents. However, the decrease weakened over the month to only a marginal pace that was the mildest of the current sequence. This slowdown reflected faster production growth and efforts by some firms to rebuild diminished holdings of post-production goods.

Employment Index

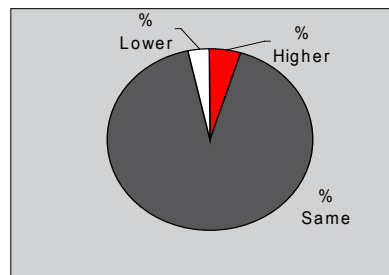
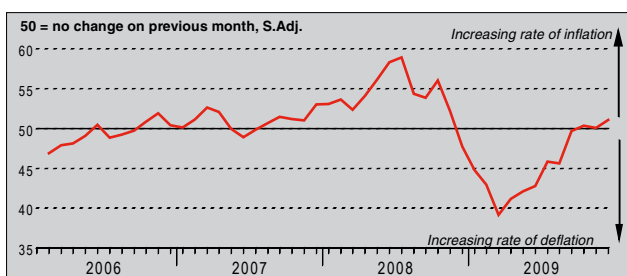
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index rose slightly in December from November's level, pointing to another robust rise in staffing numbers at Brazilian manufacturers. Companies in the sector have added to their payrolls for the past four months, and at accelerating rates. The latest growth was the strongest for seventeen months and faster than the series' pre-downturn trend. Respondents reported that additional personnel had been needed to cope with higher workloads.

Output Prices Index

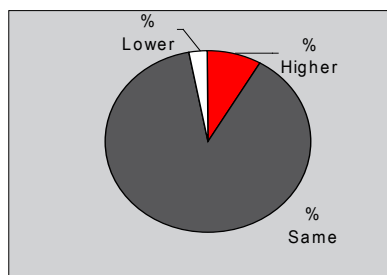
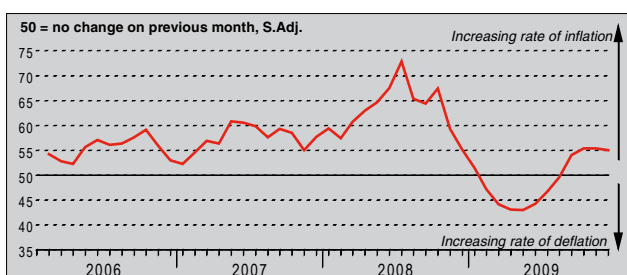
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Favourable demand conditions meant that Brazilian manufacturers were able to pass on part of their increased cost burdens to customers during the latest survey period. Charges were raised modestly in December and for the third consecutive month. This followed a ten-month sequence of decline. However, data showed that the vast majority of the survey panel (approximately 92%) left factory gate prices unchanged on the month.

Input Prices Index

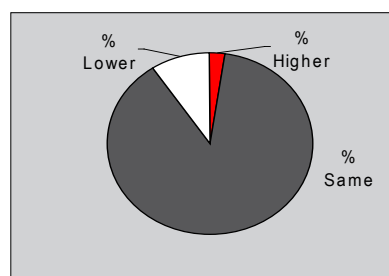
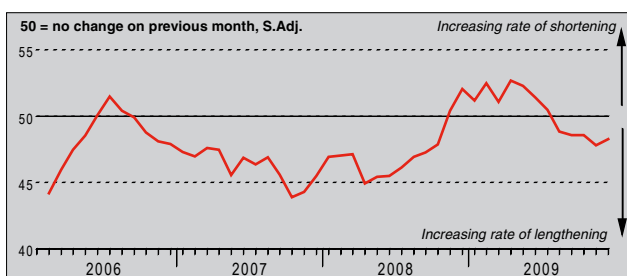
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Panellists stated that higher raw material costs, especially those for metals and plastics, underpinned input price inflation in December. The increase in purchasing costs was robust and little-changed from rates recorded in October and November. Companies have seen their average cost burdens rise for four months running, a period in which buying activity has also increased. Even so, inflation was weaker than the historic trend for the series.

Suppliers' Delivery Times Index

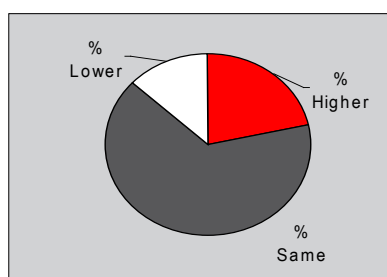
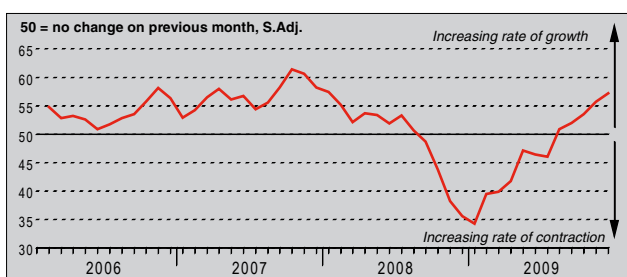
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Demand for raw materials from Brazilian manufacturers put additional pressure on suppliers' capacities in December, and average supplier performance deteriorated further as a result. Some reports indicated that longer lead times resulted from logistical problems at vendors. Delivery times have increased in each of the past five months. However, respondents noted only a slight deterioration that was slower than in November.

Quantity of Purchases Index

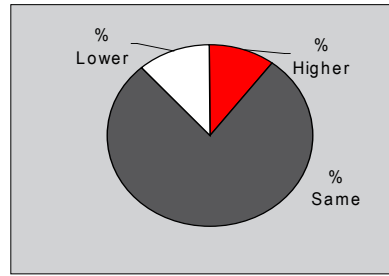
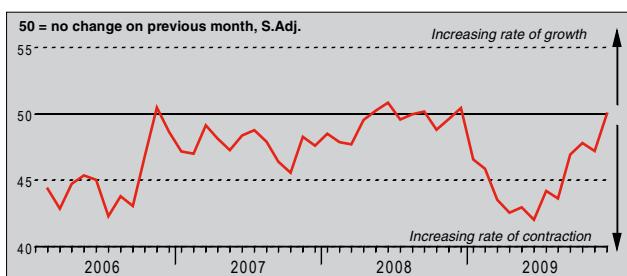
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Brazilian manufacturers acquired more inputs during the latest survey period. Buying activity grew at a considerable pace that was the fastest for nearly two years and comfortably above the series' long-run average. Around 22% of the survey panel increased their purchases of raw materials since November, attributing this to greater production levels. In comparison, just 13% of companies reduced the quantity of their purchases in December.

Stocks of Purchases Index

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



Despite a faster rise in purchasing activity, pre-production stock levels at Brazilian manufacturers were unchanged during December. Anecdotal evidence indicated that the more marked increase in raw material acquisitions was offset by a sharper expansion in production. The seasonally adjusted Stocks of Purchases Index has risen considerably since June's series low, and December's index reading signalled an end to the previous eleven-month period of contraction.

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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