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## HSBC Brazil Manufacturing PMI

PMI hit series record peak in January, supported by faster growth of output, new orders and employment.

### Key findings:

- Production, new business and input stocks all expanded at series record rates.
- Job creation fastest for over two years.
- Input prices rose strongly. Charge inflation was moderate.

Brazilian manufacturing had a promising start to the new year, with the sector expanding at a considerable pace. This was shown by the headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – which climbed to 57.8 in January, its highest level since data were first available in February 2006.

Driving the latest rise in the PMI were series record expansions in three of its five component variables (output, new orders and input stocks). Meanwhile, employment rose at the fastest pace since November 2007 and vendor performance deteriorated at the sharpest rate for seventeen months (note: the Suppliers' Delivery Times Index is inverted in the calculation of the PMI).

Total new work taken by Brazilian manufacturers increased sharply in January, leading firms to raise production levels by a similar extent (although stock-building was also a contributing factor). Data indicated that the primary driver of overall new order growth was domestic demand, as new export business expanded only modestly on the month. Reports suggested that improved global economic conditions supported sales volumes.

Encouraged by stronger demand for Brazilian manufactures, companies replenished their inventories in January. Both pre- and post-production stocks were built-up for the first time in

over a year. This was accomplished via quicker expansions in buying activity and production respectively.

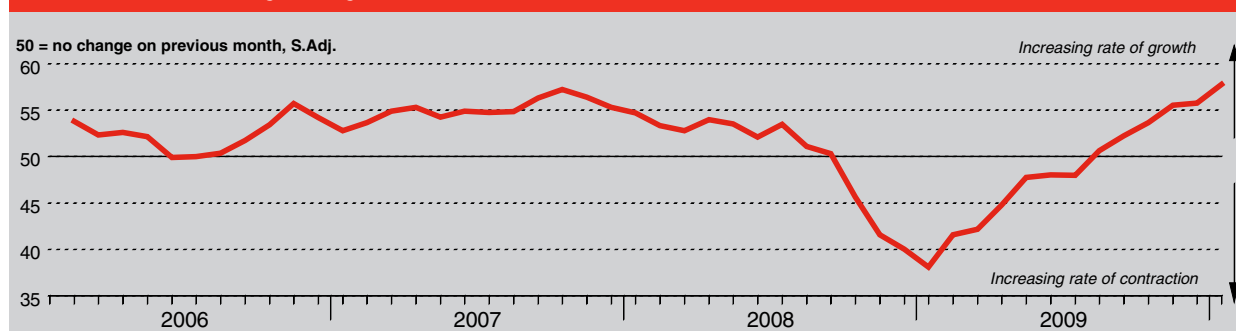
Higher demand for raw materials resulted in the fastest deterioration in average vendor performance since August 2008. Lead times on input deliveries to Brazilian manufacturers have now lengthened for six straight months.

Greater workloads put further pressure on manufacturers' resources during the latest survey period. Backlogs accumulated at a considerable and accelerated pace since December. Consequently, firms took on more staff to increase capacity. Employment expanded at a marked pace that was above the series' pre-downturn trend.

Manufacturers in Brazil recorded another strong rise in their average purchasing costs at the start of Q1. The index tracking movements in input prices trended sideways for the fourth month running, signalling a broadly constant rate of inflation over this period. Anecdotal evidence suggested that higher raw material costs underpinned the latest increase. Respondents made particular reference to greater prices for metals, plastics, leather and food-related products.

Favourable demand conditions allowed Brazilian manufacturers to raise their charges again in January. Although only moderate, the rate of increase was the most marked since November 2008.

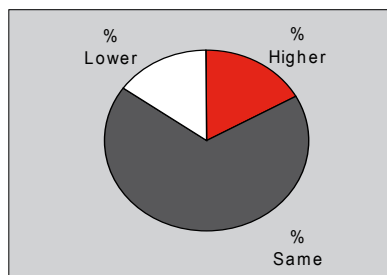
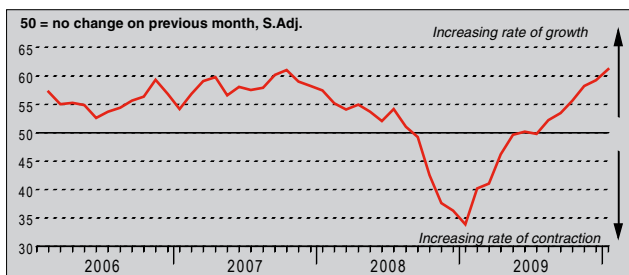
HSBC Brazil Purchasing Managers' Index (PMI™)



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

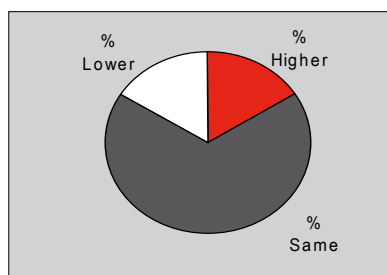
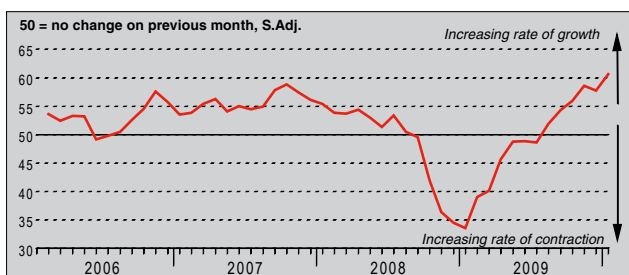
Q. Please compare your production/output this month with the situation one month ago.



Manufacturers in Brazil continued to raise production levels in January. This was highlighted by the seasonally adjusted Output Index, which registered above the no-change mark of 50.0 for the sixth month running. Furthermore, the index has risen every month during this period. The latest figure was the highest in the survey's four-year history and signalled a considerable rate of growth. Panellists cited the main reasons for the increase as improved sales volumes and stock-building.

### New Orders Index

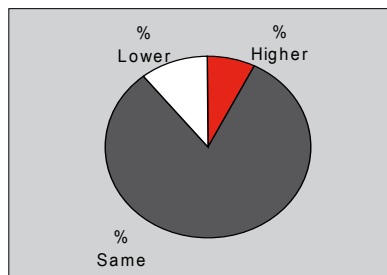
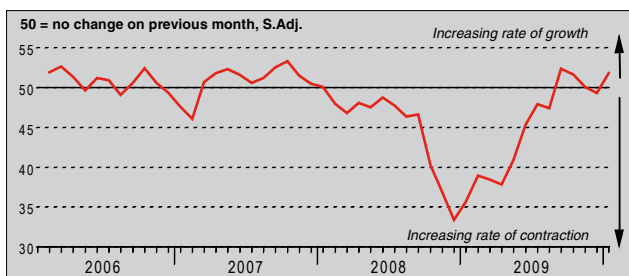
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Total new work received by Brazilian manufacturers increased at a substantial rate in the first month of 2010. After accounting for seasonal variations, the New Orders Index climbed for the sixth consecutive month to a series record peak. Data indicated that the domestic market was the primary driver of overall new business growth, as incoming new work from abroad expanded only modestly since December. Better economic conditions supported a rise in underlying demand, according to respondents.

### New Export Orders Index

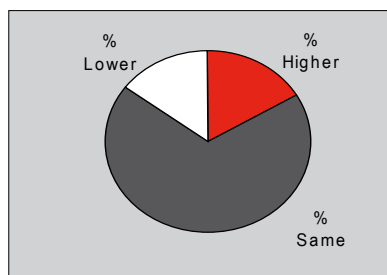
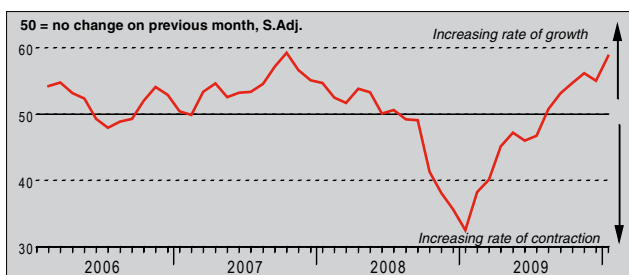
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After falling slightly in December, external demand for Brazilian manufactures picked up during January. Although the rate of increase was only moderate, it was the most marked for four months and above the series' pre-financial crisis trend. Survey participants noted that favourable global economic conditions had boosted foreign demand for their goods. Some firms reported that sales had been especially good in Mexican and North American markets.

### Backlogs of Work Index

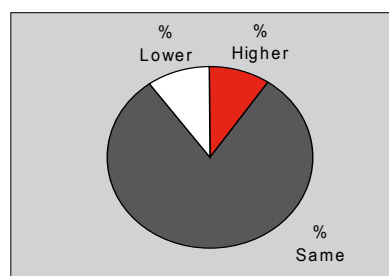
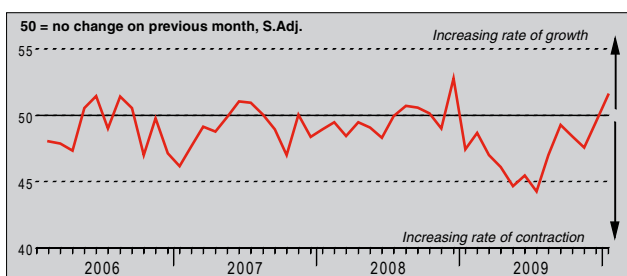
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



There was evidence of capacity constraints at Brazilian manufacturing units during the latest survey period. The seasonally adjusted Backlogs of Work Index jumped sharply since December, signalling a faster build-up of unfinished business. Reports highlighted greater workloads as the factor primarily causing work-in-hand to accumulate. Outstanding work has increased for six straight months, in line with the trend in new orders.

### Stocks of Finished Goods Index

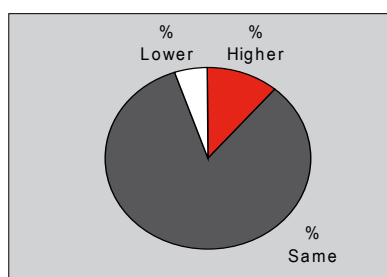
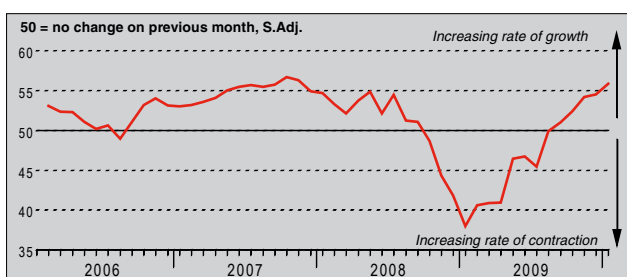
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



January marked an end to a year-long downturn in post-production holdings at Brazilian manufacturers. Respondents stated that a faster inflow of new business, alongside much-improved economic conditions, led them to re-build depleted holdings. Although moderate, the rate of accumulation was nevertheless the second-sharpest in the series history. Since the survey began in February 2006, finished goods stocks have increased in only fourteen survey periods.

### Employment Index

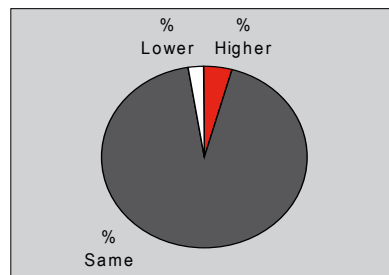
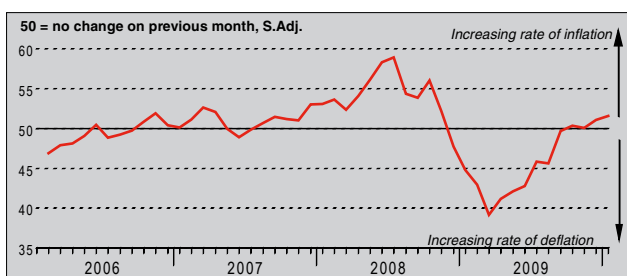
Q. Please compare the level of employment at your unit with the situation one month ago.



Brazilian manufacturers added to their workforces in January, extending the present sequence of expansion to five months. Since the downturn in employment ended in September of last year, the pace of job creation has accelerated during each survey period. The latest rise in staffing numbers was marked and the fastest for over two years. Panel member responses indicated that personnel were hired in order to meet increased production requirements and ease capacity pressures.

### Output Prices Index

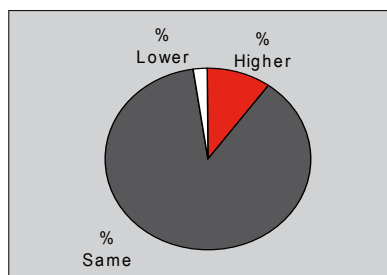
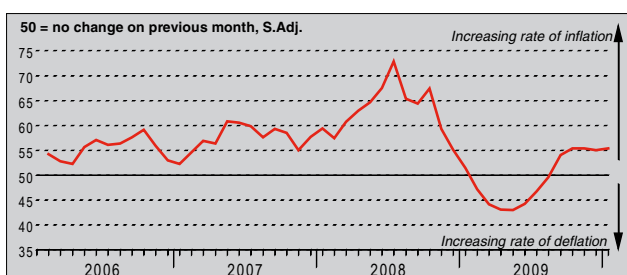
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Charges for Brazilian manufactures rose modestly during January, with approximately 5% of panel members putting their prices up. Factory gate prices in the industry have now increased for four straight months, following a ten-month period of decline. Moreover, inflation has accelerated for the past two survey periods, with the latest increase the most marked since November 2008. Companies stated that tariffs were raised in order to protect profit margins from erosion by higher input costs.

### Input Prices Index

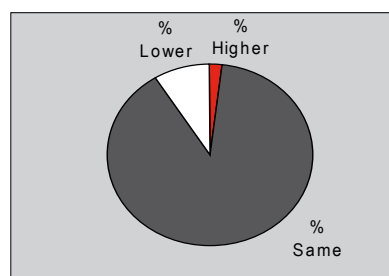
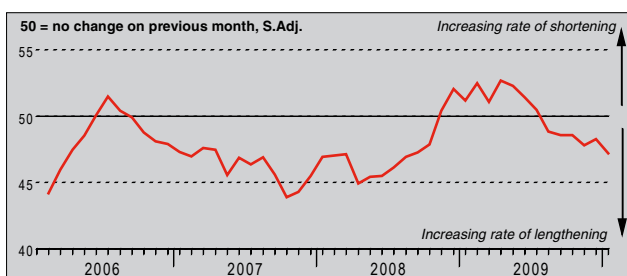
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Higher raw material prices – in particular metals, plastics, leather and food-related products – drove the latest round of input price inflation in Brazil's manufacturing economy, according to survey responses. Average purchasing costs climbed at a marked pace since December. However, the seasonally adjusted Input Prices Index has trended broadly sideways for the past four months, signalling that the month-on-month rate of increase has been largely constant over this period.

## Suppliers' Delivery Times Index

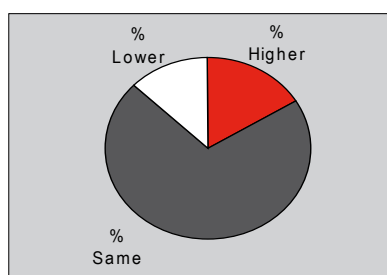
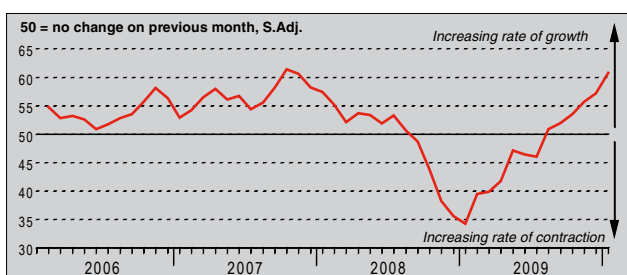
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on input deliveries to Brazilian manufacturers continued to lengthen during the first month of the new year. Moreover, the rate of deterioration accelerated to the sharpest pace since August 2008, which survey participants attributed to stronger demand for raw materials and capacity constraints at vendors. Data indicated that the moderate increase in delivery times was broadly consistent with the pre-financial crisis trend for the series.

## Quantity of Purchases Index

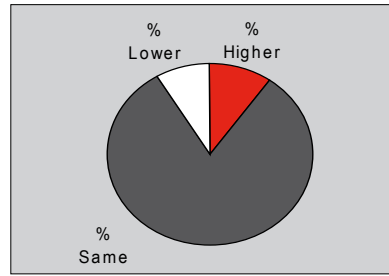
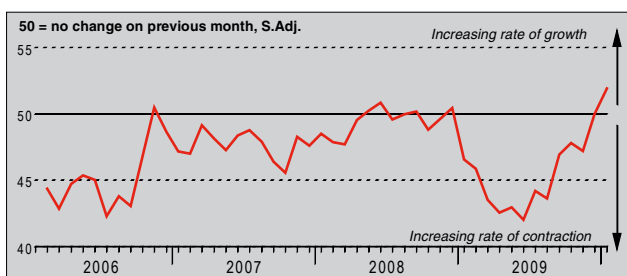
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Despite rising input costs, Brazilian manufacturers purchased greater volumes of raw materials during January. Buying activity grew at a substantial and accelerated pace since December. The latest increase was the sharpest for twenty-seven months and comfortably above the series' pre-downturn average. Anecdotal evidence showed that firms acquired more inputs in order to accommodate higher production requirements and re-build stocks.

## Stocks of Purchases Index

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



For the first time in over a year, holdings of raw materials at Brazilian manufacturing plants expanded. The seasonally adjusted Stocks of Purchases Index climbed for the second consecutive month in January, reaching a new series record high. The latest reading pointed to a modest rate of accumulation. Companies frequently noted that inventories were replenished to support higher demand levels and in anticipation of future growth in new orders.

## 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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