

Embargoed until: 10:00 (SAO PAULO), 1 March 2010

HSBC Brazil Manufacturing PMI

PMI down from January's series record peak in February, but still signalled marked improvement in manufacturing business conditions.

Key findings:

- Output and new order growth slowed, but remained above pre-downturn trends.
- Employment increased at fastest pace since October 2007.
- Input price inflation accelerated to marked rate.

Brazil's manufacturing economy expanded at a marked rate in February, although growth cooled following January's series-record performance. Both output and new orders grew strongly, while job creation accelerated again. However, there was further evidence of rising price pressures, as higher demand for raw materials, capacity constraints at suppliers and unfavourable exchange rates pushed up input prices.

The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – slipped from January's survey high of 57.8 to 55.8 in February. The drop represented a weaker expansion of the sector. Nevertheless, the latest reading signalled a marked improvement in operating conditions faced by Brazilian manufacturers.

Total incoming new business to the industry expanded for the seventh month running in February, although the latest increase was the mildest since last October. Both domestic and foreign sales rose on the month, however data showed that the former remained the primary driver of overall new order growth. Anecdotal evidence suggested that a combination of better global economic conditions and successful promotional activities underpinned gains in new work.

Backlogs continued to build at Brazilian manufacturers as workloads increased during the second month of 2010, suggesting pressure on operating capacity. Correspondingly,

output rose at a slightly slower pace than new orders.

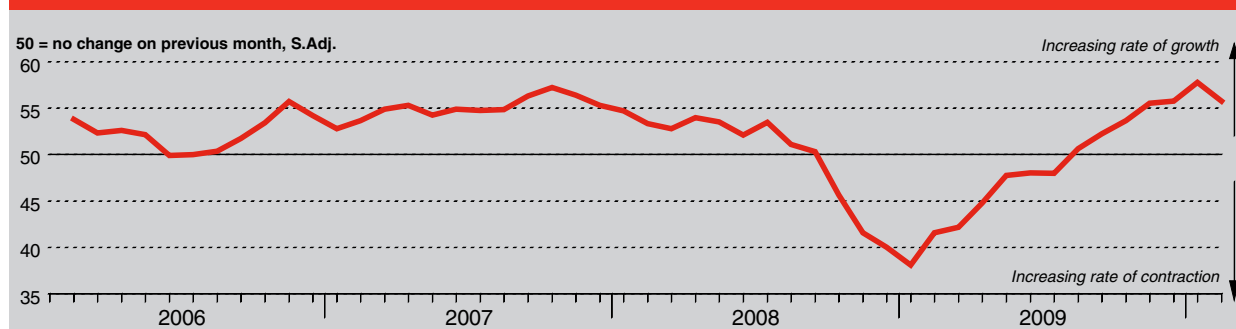
Employment and buying activity were raised in February – both to accommodate current production requirements and in anticipation of improved demand going forward. Staffing increased at a firm pace that was the fastest since October 2007, while raw material purchases grew markedly (albeit more slowly than over the previous two months).

Stronger demand for raw materials led to longer lead times during February, as suppliers faced capacity constraints. Average vendor performance has now deteriorated for seven consecutive months.

Input stocks at Brazilian manufacturing plants were broadly unchanged on the month. Where inventories fell, this was mainly attributed to delays on raw material deliveries. Meanwhile, larger holdings were linked to efforts to re-stock amid an improving business environment.

Input price inflation accelerated to a considerable pace during the latest survey period. Panellists noted greater prices for raw materials (particularly metals, natural gas and food-related goods) and a weak real against the US dollar. Favourable demand conditions enabled manufacturers to pass on part of these cost increases to customers by way of higher charges. Output prices rose for the fifth month running, although the latest increase was only moderate and below the pre-downturn trend.

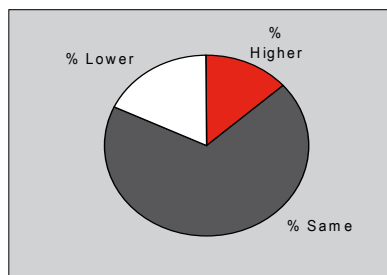
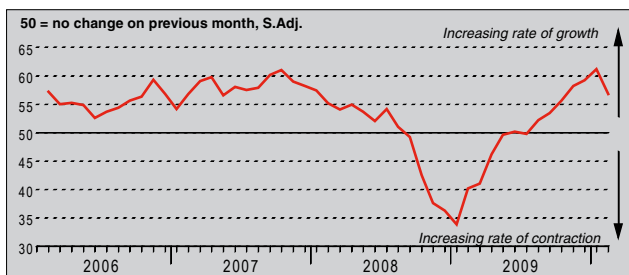
HSBC Brazil Purchasing Managers' Index (PMI™)



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

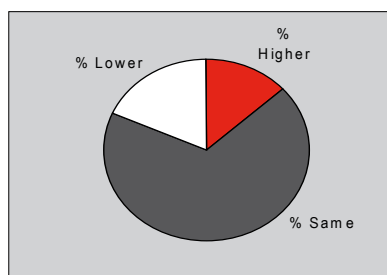
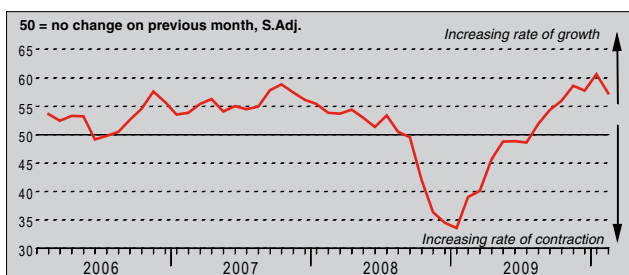
Q. Please compare your production/output this month with the situation one month ago.



After hitting a series-record high at the start of 2010, the seasonally adjusted Output Index slipped back to a four-month low in February. The drop in the index signalled a slowdown in the pace of output growth across Brazil's manufacturing sector. Nevertheless, the latest figure was consistent with a marked expansion of production. Panellists highlighted better economic conditions and gains in new business as the predominant reasons for the increase.

New Orders Index

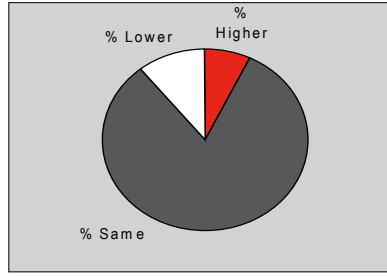
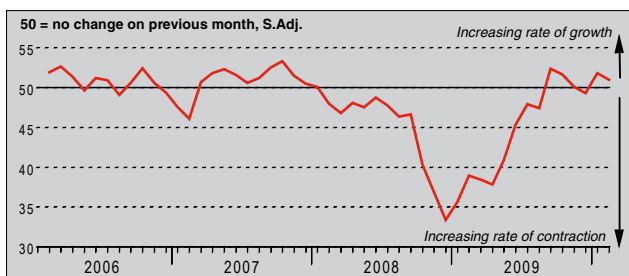
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



February data indicated that domestic demand remained the primary support of total new order growth at Brazilian manufacturers, as new export business rose only modestly. Incoming new work increased at a substantial rate since January, extending the current sequence of expansion to seven months. Although the latest rise in overall new business was the mildest since October last year, it was nevertheless faster than the series' pre-downturn trend. Firms cited better global economic conditions and marketing initiatives as important factors behind the gains.

New Export Orders Index

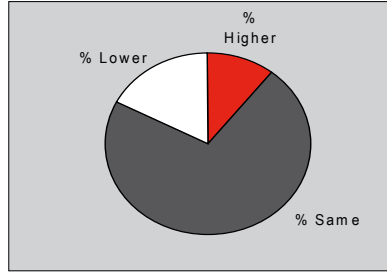
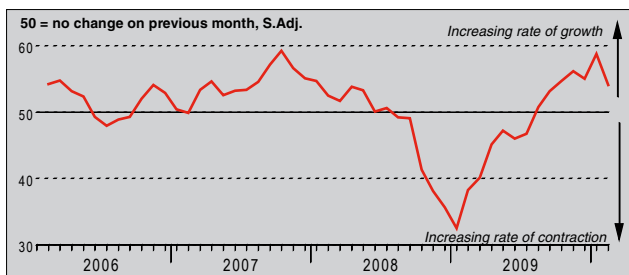
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Brazilian manufacturers rose for the fifth time in six months during the latest survey period. Growth was moderate and slightly weaker than in January. Even so, the pace of expansion remained firmer than the average trend prior to the 2008/2009 downturn. Anecdotal evidence suggested that improved economic conditions abroad had supported foreign demand for Brazilian manufactures. Reports also indicated that orders were placed by both existing and new customers.

Backlogs of Work Index

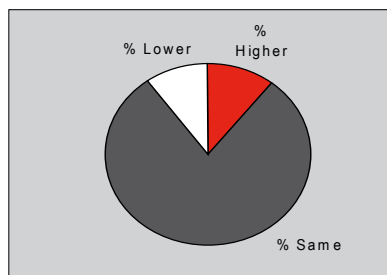
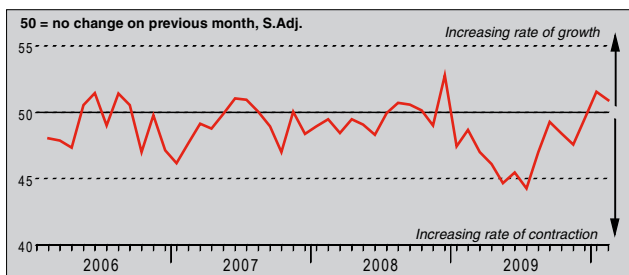
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Work-in-hand continued to build at Brazilian manufacturing plants during February, which respondents attributed to rising workloads. Outstanding business has accumulated for seven straight survey periods, although the pace of growth slowed from January's twenty-seven month peak. Data showed that the latest rise in backlogs was the slowest since last September, but still solid and comfortably above the series long-run average.

Stocks of Finished Goods Index

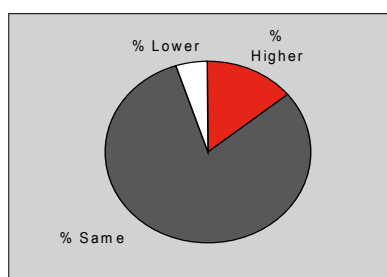
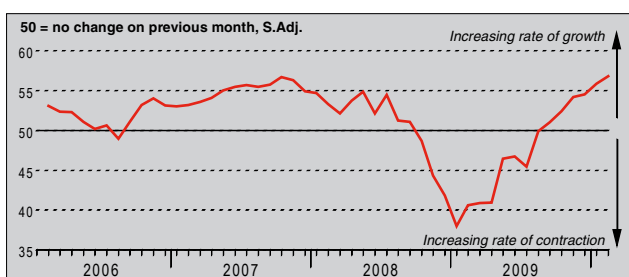
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index registered above the neutral mark of 50.0 for the second successive month in February, signalling another rise in inventories at Brazilian manufacturing units. However, with just 11% of panellists adding to stocks against 10% reducing them, the pace of accumulation slowed to a marginal rate. Where holdings were increased, this was generally linked to stock building due to improved economic conditions. Meanwhile, higher-than-expected sales was the main reason for lower inventories.

Employment Index

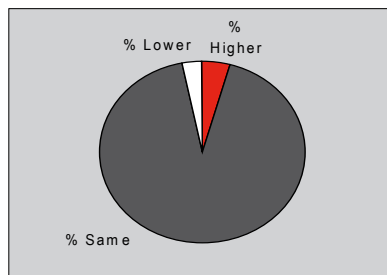
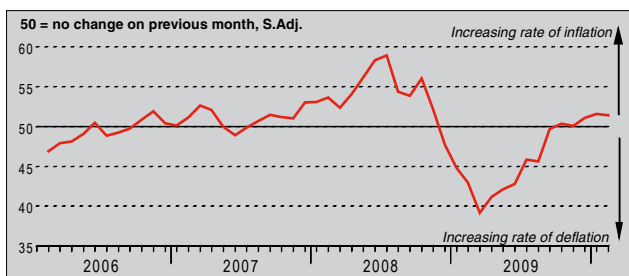
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth accelerated again during February, following almost a year of decline. The latest increase was strong and the fastest since October 2007, with more than 14% of the survey panel taking on additional personnel. Anecdotal evidence showed that current favourable business conditions, alongside expectations of higher demand and new orders in future, were the main factors behind decisions to hire more workers.

Output Prices Index

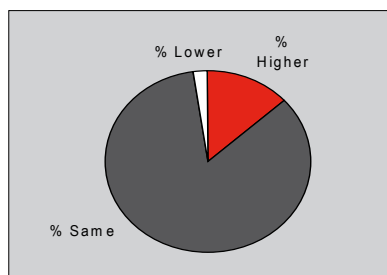
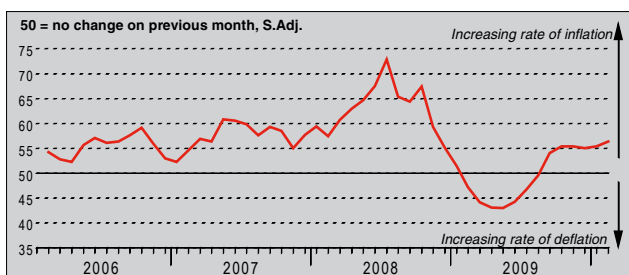
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Inflation of prices charged for Brazilian manufactures was little-changed in February. With only around 5% of monitored firms lifting their rates, the increase remained moderate and weaker than the series' pre-downturn trend. Nonetheless, the increase was in sharp contrast to the rapid declines recorded around the same period a year ago. Companies indicated that factory gate prices were raised to partly compensate for the faster rise in input costs.

Input Prices Index

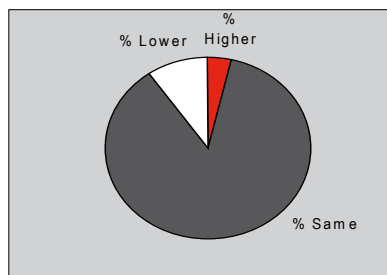
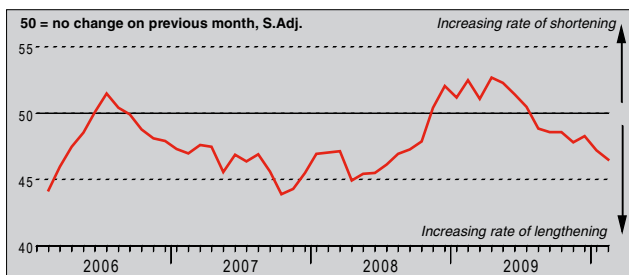
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Brazilian manufacturers recorded another rise in their average cost burdens during February. Moreover, the seasonally adjusted Input Prices Index, which had been largely flat over the previous four months, climbed to its highest level since November 2008. Respondents attributed the strong increase to an unfavourable exchange rate against the US dollar and greater raw material costs. Firms especially mentioned the increased costs of natural gas, metals and food-related items.

Suppliers' Delivery Times Index

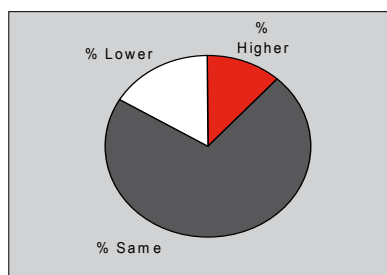
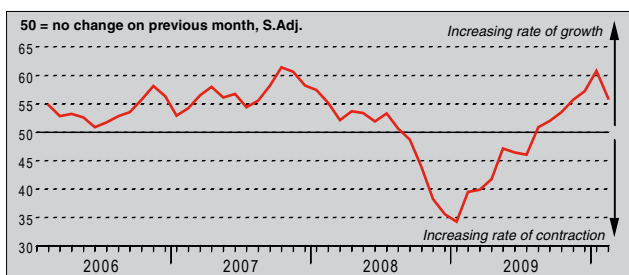
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Strong demand for raw materials at Brazilian manufacturers put additional pressure on suppliers' capacities during February. Consequently, lead times lengthened for the seventh month running and at an accelerated pace. Data pointed to a solid deterioration in average vendor performance that was the most marked since July 2008. Approximately one-tenth of monitored companies noted delivery delays on the month, against just 4% that saw an improvement.

Quantity of Purchases Index

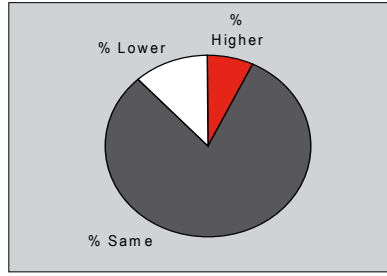
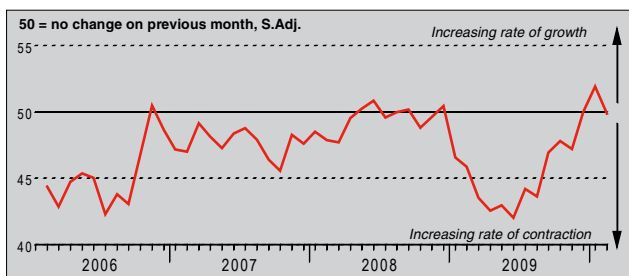
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Brazilian manufacturers continued to increase their raw material purchases during the second month of 2010. Highlighting this, the seasonally adjusted Quantity of Purchases Index registered above the no-change threshold of 50.0 for the seventh consecutive month. The main reason for higher buying activity, according to survey participants, was heavier workloads. However, the index fell from January's twenty-seven month high to its lowest level since last November.

Stocks of Purchases Index

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



Pre-production inventories at Brazilian manufacturers were broadly unchanged in February, after growing over the previous two months. The vast majority (around 81%) of firms saw no difference in their input stock levels since January. Panel members cited delivery delays from suppliers as the main reason for lower stock levels. Where holdings of raw materials accumulated on the month, this was frequently linked to increased purchasing activity resulting from greater production requirements.

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.

Warning

The intellectual property rights to the HSBC Brazil Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.