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HSBC Brazil Manufacturing PMI

Brazilian manufacturing production growth remained considerable in March, while price pressures continued to mount.

Key findings:

- Expansions in both total new orders and employment eased, but remained marked.
- New work from abroad rose only slightly.
- Input and output price inflation accelerated.

At 55.4 in March, the headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – was little-moved from February's reading of 55.8. The latest figure, which reflected strong growth of output, new orders and employment, pointed towards another marked expansion of Brazil's manufacturing economy. Moreover, the rate of improvement in operating conditions remained above the series' pre-downturn trend. Looking at the performance for the quarter as a whole, data suggest that 2010 Q1 was the best-performing quarter for Brazil manufacturing since 2007 Q4.

Although new business growth eased for the second month running from January's series record high, the latest increase was nonetheless robust. Sector data revealed that the domestic market continued to propel the expansion in total new business, as incoming new work from abroad rose only marginally during March. Respondents stated that stronger worldwide economic conditions had supported demand for Brazilian manufactures. Overall, firms have reported new order gains for eight consecutive months. Manufacturers raised production levels at a similarly marked pace to the increase in new business.

As workloads rose in March, companies noted another build-up of backlogs. Outstanding business accumulated for the eighth month in succession, suggesting that capacity constraints

remained an issue within the sector. However, growth eased since February to a more moderate pace that was the weakest since September 2009.

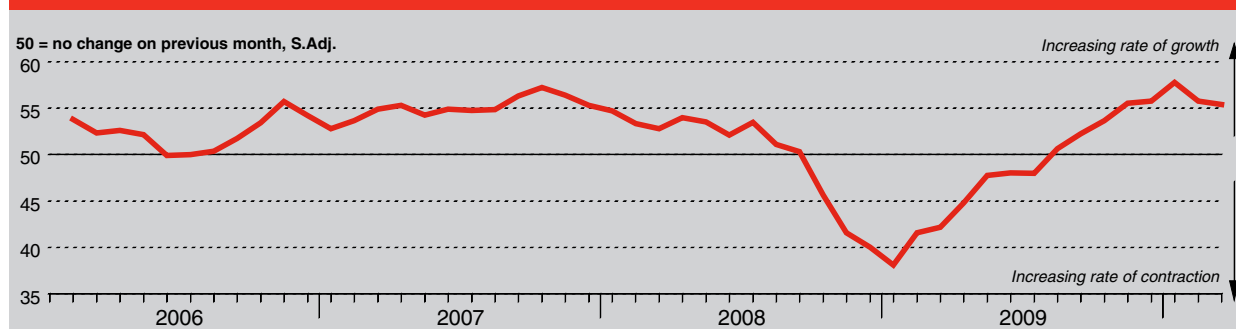
Another round of job creation was recorded across the Brazilian manufacturing industry in March. Staffing numbers rose at a marked pace, albeit more slowly than during the first two months of the year. Panellists widely commented on greater workloads.

To accommodate higher production requirements, companies bought additional raw materials at the end of the first quarter. Purchasing activity rose strongly and at a similar rate to that recorded in February. However, the increase was not sufficient to build up stocks of inputs, which remained broadly unchanged on the month.

Suppliers' delivery times continued to lengthen in March, as demand for inputs grew further. Firms noted a solid deterioration in average vendor performance since February.

Both input and output price inflation accelerated during March, the latter primarily in reaction to the former. Manufacturers indicated that greater raw material and fuel costs, alongside unfavourable exchange rates, drove the latest rise in purchasing prices. Specific reference was made to higher prices of metals, oil, coal, alcohol, chemical products, rubber, plastics, cotton and certain crops. However, while charge inflation was above its pre-crisis average, input cost inflation remained below it.

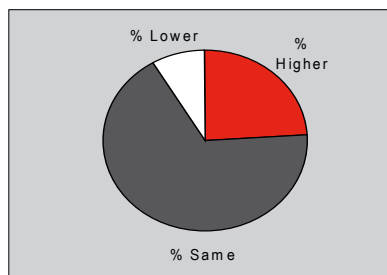
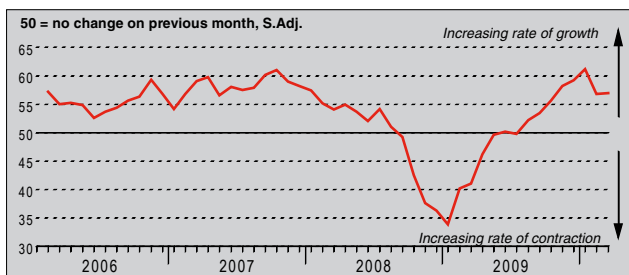
HSBC Brazil Purchasing Managers' Index (PMI™)



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

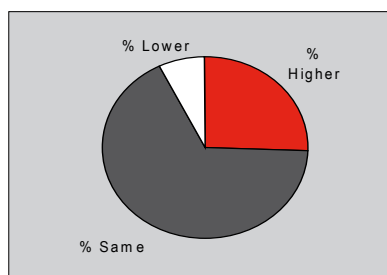
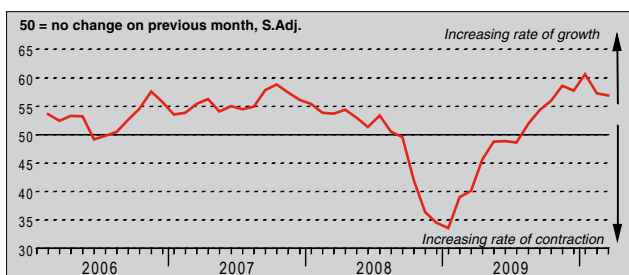
Q. Please compare your production/output this month with the situation one month ago.



After slipping to a four-month low in February, the seasonally adjusted Output Index inched higher in March. Although not as high as January's series record, the latest reading still signalled a considerable increase in Brazilian manufacturing production. Of the 24% of respondents that raised activity levels over the month, most commented on improved demand conditions and gains in new work. Production in the sector has grown during every month since August 2009.

New Orders Index

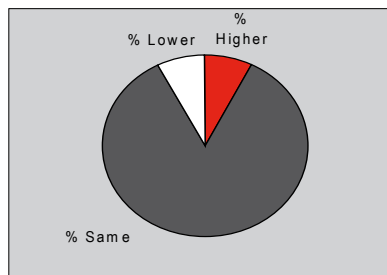
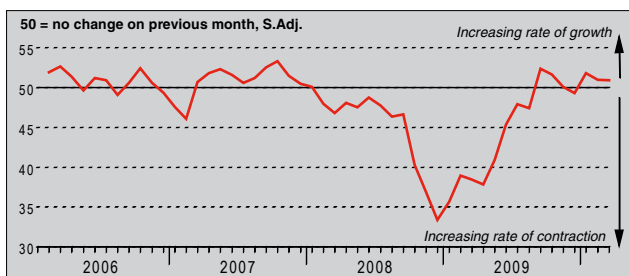
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Overall demand for Brazilian manufactures remained strong at the end of Q1. New order levels rose markedly since February as a result, albeit less so than over the previous four months. Anecdotal evidence suggested that improved global economic conditions were the primary support of sales levels. Sector data showed that the domestic market remained the primary contributor to total new order growth, as new export business increased only slightly in March.

New Export Orders Index

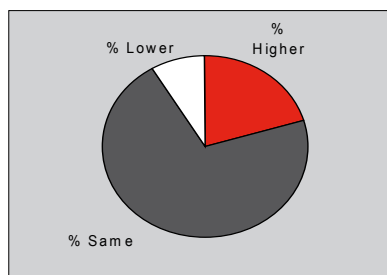
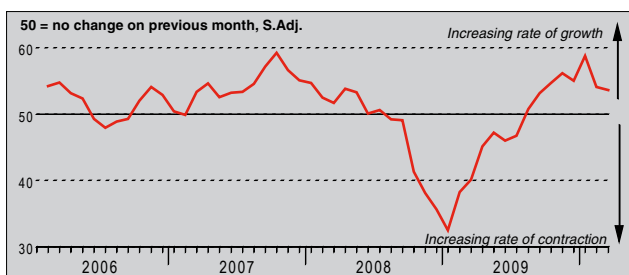
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Growth of incoming new work from abroad moderated further in March to a slight pace. Panel members cited unfavourable exchange rates, particularly against the US dollar, as the predominant reason for the slower rate of increase. Even so, the pace of expansion was only fractionally weaker than in February and data showed that Q1 as a whole was the strongest-performing quarter since 2007 Q4 for new export orders. Companies have linked improved external demand over the quarter to better worldwide economic conditions.

Backlogs of Work Index

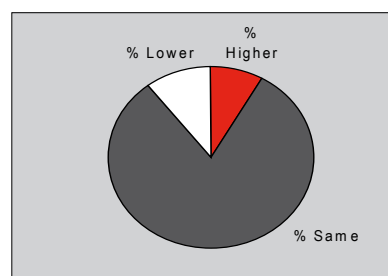
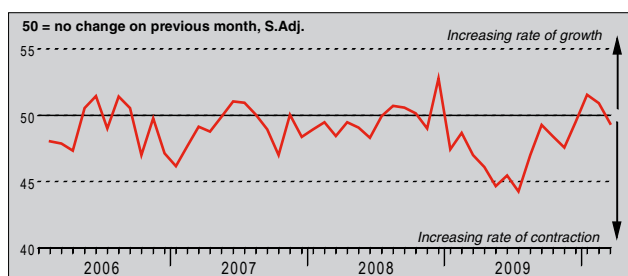
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Volumes of unfinished business continued to build at Brazilian manufacturing plants over the latest survey period, extending the current sequence of growth to eight months. Greater new orders was the key factor behind the increase in outstanding work, according to respondents. However, data showed that the pace of accumulation moderated for the second month running, in line with the trend in new orders. The latest rise in backlogs was the mildest since September last year.

Stocks of Finished Goods Index

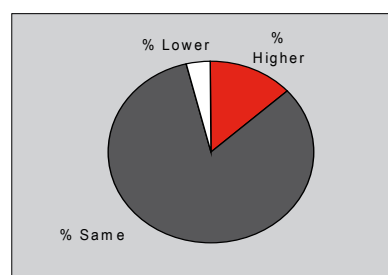
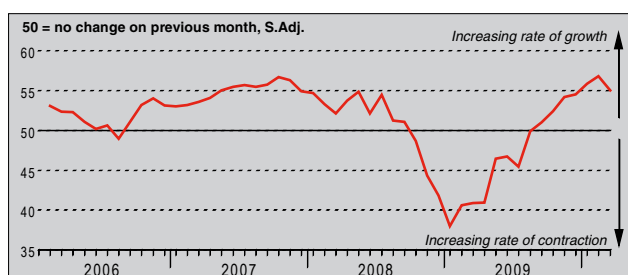
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In a reversal of the trend seen over the previous two months, post-production holdings at Brazilian manufacturers fell during March. However, the decrease was only weak. Just under 11% of monitored companies reported a contraction in inventories, against around 8% that noted growth. The main reason for the decline, according to survey participants, was an unexpectedly high volume of sales. Where stock building was reported, this was primarily due to better demand conditions.

Employment Index

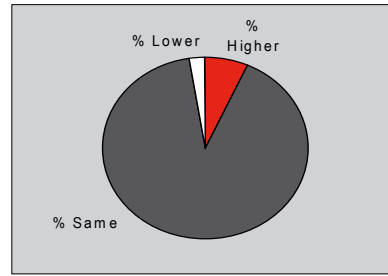
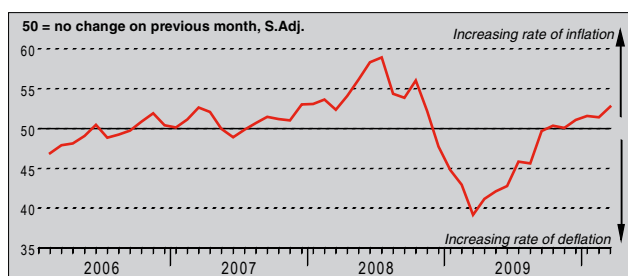
Q. Please compare the level of employment at your unit with the situation one month ago.



Brazilian manufacturers hired new staff at a marked pace at the end of the first quarter. Employment growth has now been recorded in the sector for seven consecutive months. Anecdotal evidence suggested that a better business environment and further gains in new work underlay the latest round of job creation. However, the seasonally adjusted Employment Index slipped from February's twenty-eight month high to signal a slowdown in the pace of expansion.

Output Prices Index

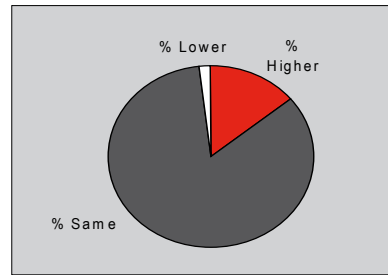
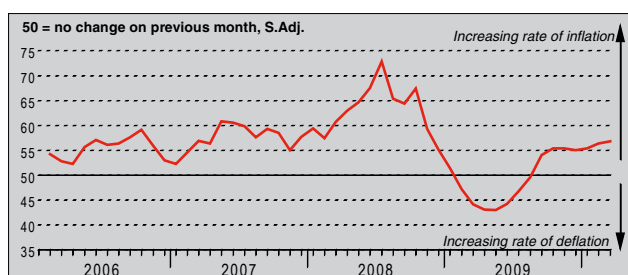
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices across Brazil's manufacturing economy rose for the sixth successive month in March as demand conditions in the sector continued to improve. Moreover, inflation accelerated since February to a solid pace that was the sharpest since October 2008. The rate of increase was also above the series' pre-downturn average. Panellists indicated that charges were raised in order to compensate for sharper input price inflation.

Input Prices Index

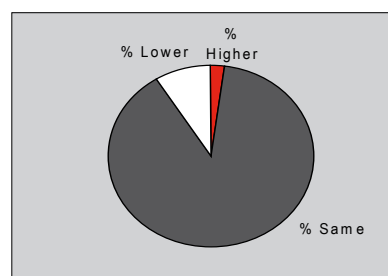
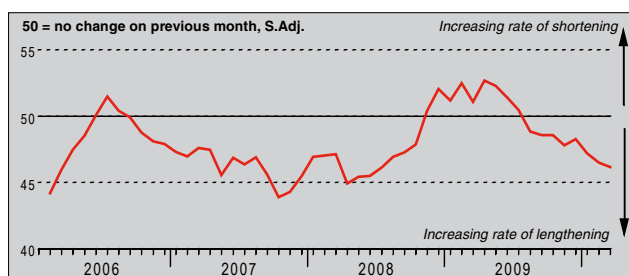
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index climbed to a sixteen-month peak in March, as over 14% of the survey panel noted higher purchasing costs. The latest figure pointed towards a considerable rise in average cost burdens, which companies mostly linked to greater raw material and fuel prices, as well as unfavourable exchange rates. Metals, oil, coal, alcohol, chemical products, rubber, plastics, cotton and certain crops were all reported to have risen in price since February.

Suppliers' Delivery Times Index

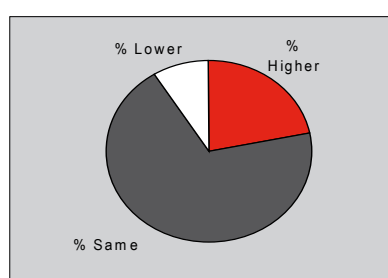
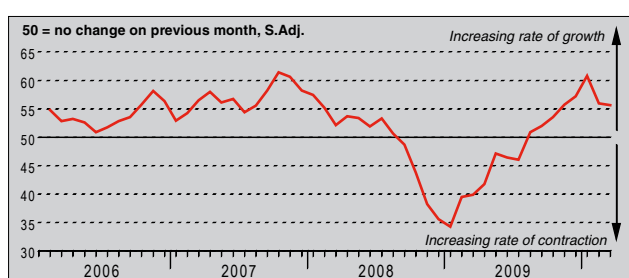
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



As demand for raw materials grew in March, Brazilian manufacturers noted a slightly faster deterioration in the quality of service provided by vendors. Approximately 9% of monitored companies noted longer delivery times since February, while just 2% reported shorter lead times. Consequently, average supplier performance worsened at a solid pace. Panel members have reported increased delivery times during every survey period since August 2009.

Quantity of Purchases Index

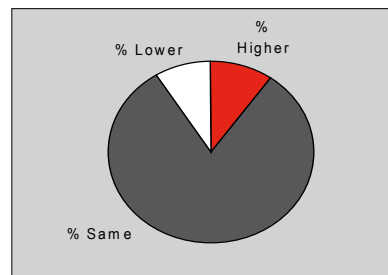
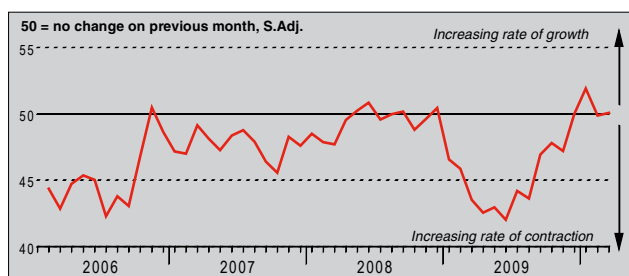
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Brazilian manufacturers acquired more inputs during the latest survey period, reflecting greater demand for their goods. Highlighting this, the seasonally adjusted Quantity of Purchases Index registered above the no-change threshold of 50.0 for the eighth straight month. Around 22% of respondents upped buying activity on the month, compared with less than 9% that reduced their raw material purchases. Overall, growth in March was at a similar pace to the marked rise recorded in February.

Stocks of Purchases Index

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



Pre-production holdings at Brazilian manufacturing plants remained broadly unchanged during March. After accounting for seasonal variations, the Stocks of Purchases Index posted close to the neutral mark of 50.0 for the second month running. Where inventories accumulated since February, this was generally attributed to stock-building policies, implemented to support output. Meanwhile, lower stocks were linked to higher production levels drawing on existing inventories.

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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