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HSBC Brazil Manufacturing PMI

Output and new order growth eased but still robust in April, while price pressures continued to mount.

Key findings:

- Production, new business and employment growth all slowed further.
- New export orders fell slightly.
- Both input and output price inflation continued to accelerate.

Latest survey data pointed to another improvement in business conditions faced by Brazilian manufacturers at the start of the second quarter. Although growth of output, new business and employment all slowed in April, it remained robust in all three cases. However, foreign demand weakened since March, resulting in a slight dip in new export orders. Meanwhile, both input and output price pressures continued to build, primarily driven by rising raw material costs.

The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – posted its lowest reading for six months in April. At 53.8, down further from January's survey record high of 57.8, the index pointed to another slowdown in the rate of improvement in operating conditions. Nevertheless, the latest reading signalled that the industry's health strengthened solidly and at a faster pace than the twelve-month series average.

New business placed with Brazilian manufacturers increased in April. Anecdotal evidence suggested that a combination of better economic conditions and company expansions into new areas supported demand. However, data indicated that growth was centred on the domestic market, as new export orders fell marginally. Although solid, the rise in total new work was the mildest since August last year.

Production levels at Brazilian manufacturers increased for the

ninth month in succession during the latest survey period, albeit at a slower pace. Firms stated that activity was raised in response to further new order growth.

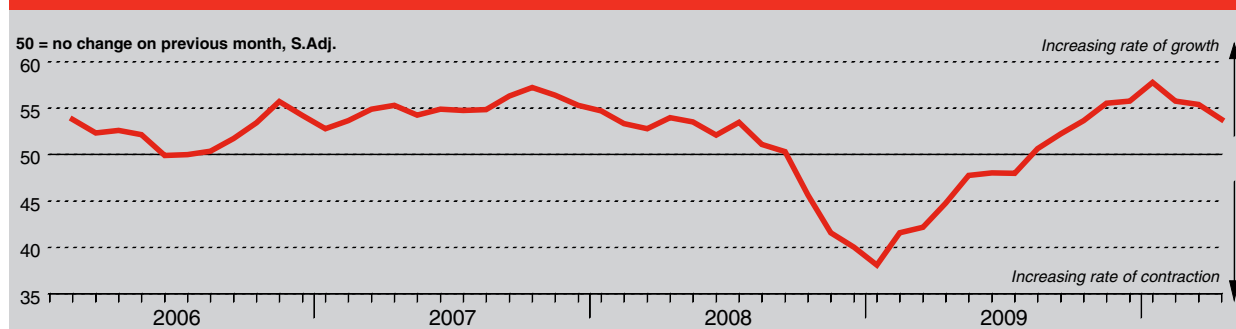
Backlogs continued to build at manufacturing units during April, which companies linked to greater workloads. However, the pace of increase moderated since the previous month to a more modest rate, reflecting smaller gains in new business.

Brazilian manufacturers hired additional workers and built up inventories in April to accommodate greater production requirements. Staff were taken on at a robust pace and for the eighth consecutive month. Meanwhile, pre-production stocks accumulated more quickly on the back of a solid rise in buying activity. Holdings of finished goods increased at a marginal pace.

Stronger demand for raw materials resulted in another solid deterioration in average vendor performance at the start of Q2. However, lead times lengthened at the weakest rate since January.

Greater raw material costs was the primary driver of both input and output price inflation in April. Growth of purchasing costs was considerable, while charges rose at a solid pace. Increases in both variables were the most marked for one-and-a-half years. Reports indicated that the rise in factory gate prices also partly reflected favourable demand conditions.

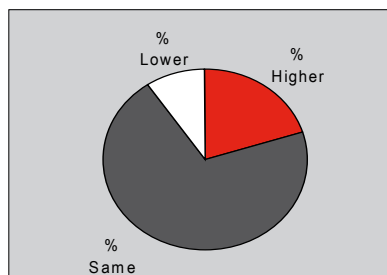
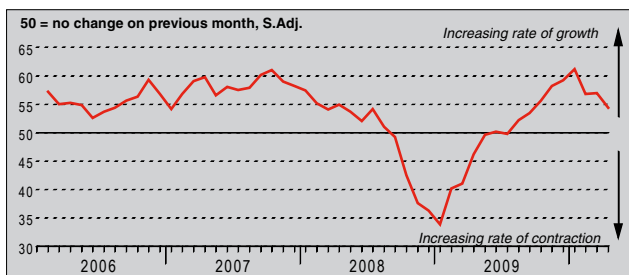
HSBC Brazil Purchasing Managers' Index (PMI™)



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

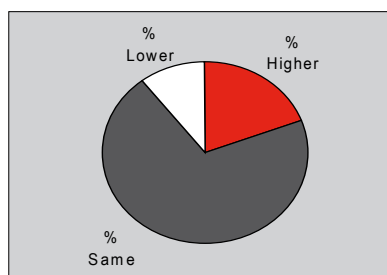
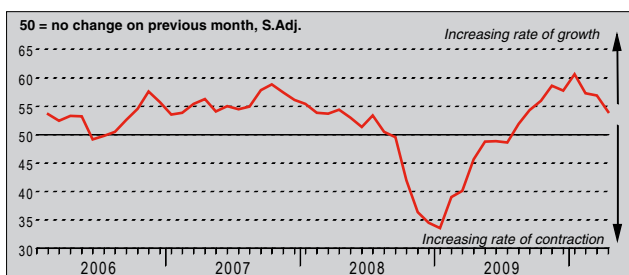
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index reading for April pointed to a more modest rise in Brazilian manufacturing production than has been recorded over the previous six months. Nevertheless, the figure remained above the series trend, with over one-fifth of the survey panel posting growth. Anecdotal evidence suggested that manufacturing activity was raised on the back of further gains in new business. Output in the sector has now expanded for nine straight months.

New Orders Index

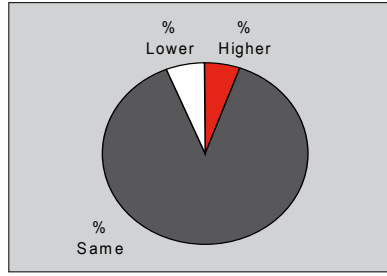
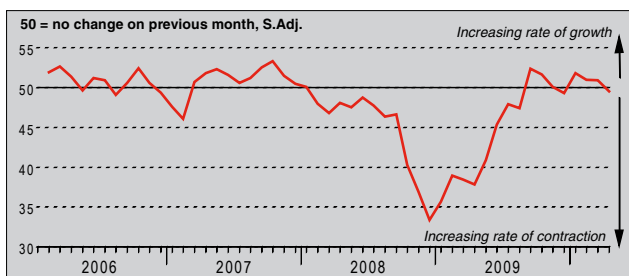
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



New order receipts at Brazilian manufacturers rose for the ninth month in succession at the start of 2010's second quarter. Respondents cited a better economic climate and company expansions into new markets as key factors underlying the latest growth. However, the increase in new business moderated in April – the latest gain was the mildest since August last year when data first signalled a recovery. That said, growth remained above the long-run average for the series.

New Export Orders Index

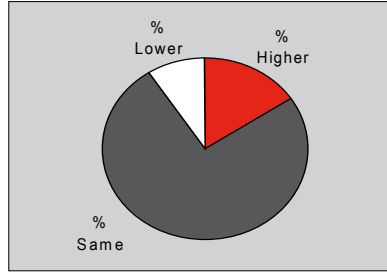
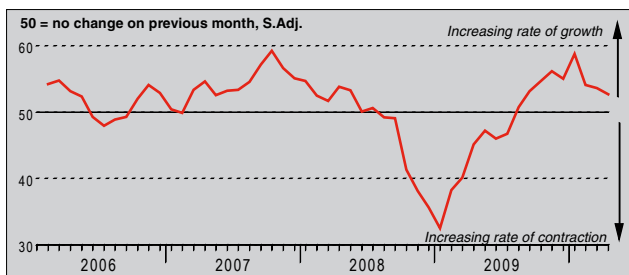
Q. Please compare the level of new export orders received this month with the situation of one month ago.



In a reversal of the trend seen over the previous three months, new export business taken by Brazilian manufacturers fell during April. However, the decline was only fractional, which panellists attributed to a reduction in foreign demand. Where incoming new work from abroad increased since March, this was frequently linked to better global economic conditions. However, the vast majority of monitored companies (approximately 89%) saw no change in the level of new work placed with them by non-domestic customers.

Backlogs of Work Index

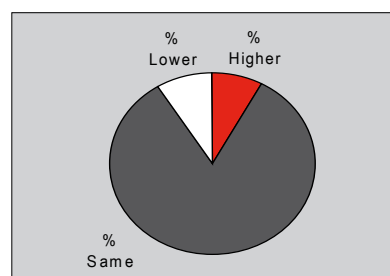
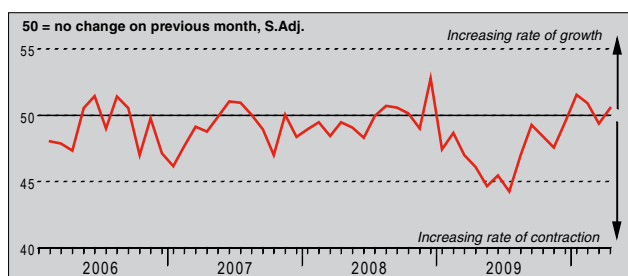
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business across Brazil's manufacturing economy grew moderately during April, extending the current sequence of increase to nine survey periods. Reports indicated that backlogs built up as a result of greater workloads. However, the rate of accumulation slowed for the third month running, in line with the trend in new orders. Around 16% of panel members noted a rise in unfinished business since March, against just 9% that reported a decline.

Stocks of Finished Goods Index

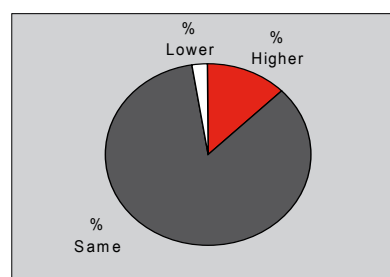
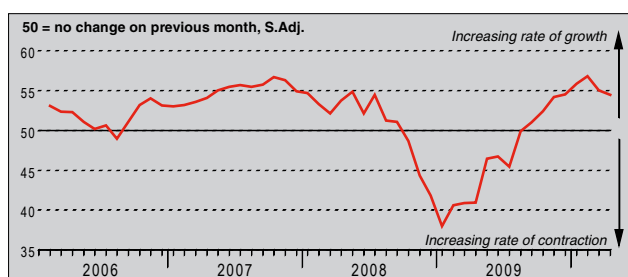
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of finished goods at Brazilian manufacturing plants rose for the third time in four months during April. Survey participants reported that inventories were built up due to improved business conditions and in order to meet greater market demand. That said, the pace of accumulation was only fractional. Where post-production stocks decreased on the month, companies frequently attributed this to better-than-expected sales levels.

Employment Index

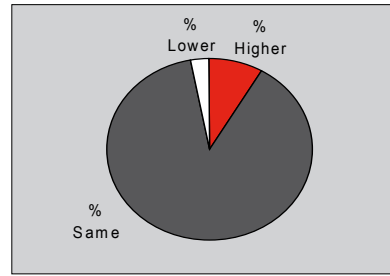
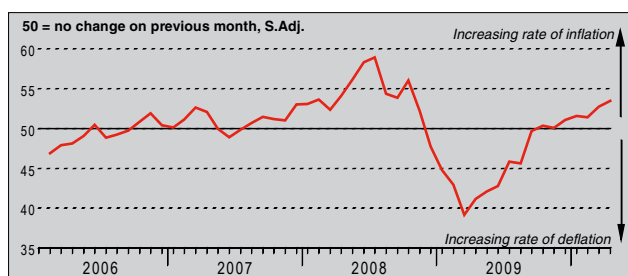
Q. Please compare the level of employment at your unit with the situation one month ago.



April marked eight months of rising personnel numbers across Brazil's manufacturing economy. Although the seasonally adjusted Employment Index slipped further from February's twenty-eight month peak, it remained at a level consistent with a solid expansion of payrolls. Moreover, the latest increase was comfortably above the series' twelve-month trend, with around 13% of firms hiring additional workers since March. Manufacturers cited greater production requirements as the primary reason for growth.

Output Prices Index

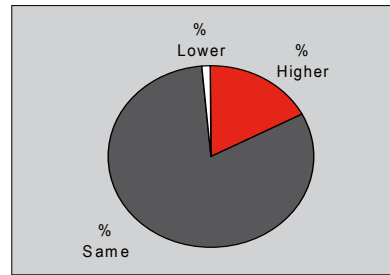
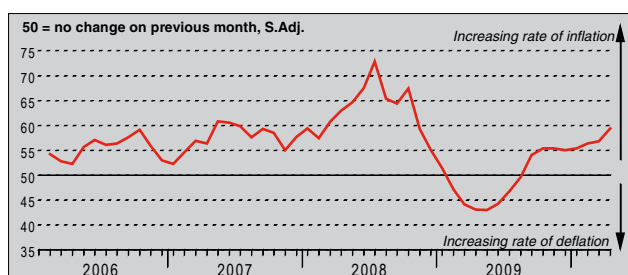
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Brazilian manufacturers raised their charges for the seventh month running at the start of Q2. Reports suggested that this was primarily in response to an increase in input costs, although some firms lifted their rates take advantage of favourable demand conditions. Data showed that output price inflation in April was solid and the fastest since October 2008. However, the vast majority of panel members (about 89%) left factory gate prices unchanged over the month.

Input Prices Index

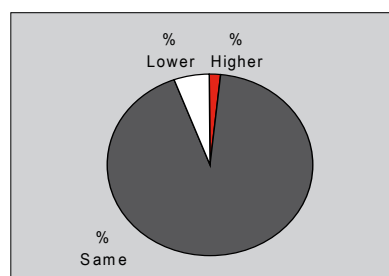
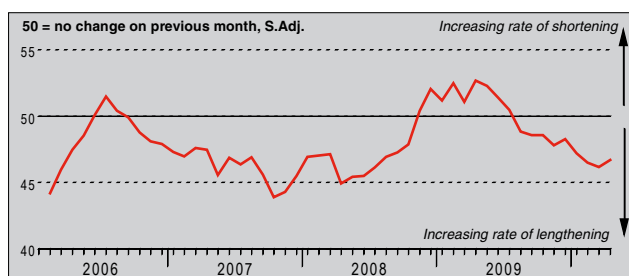
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Greater raw material costs drove the latest round of input price inflation, according to Brazilian manufacturers. Higher prices for steel, iron, aluminium, cotton, glue, oil by-products and certain paper- and plastic-related goods were specifically referred to by respondents. After accounting for seasonal variation, the Input Prices Index climbed to a one-and-a-half year high to signal a considerable rate of increase. Furthermore, inflation was above the series' pre-downturn trend.

Suppliers' Delivery Times Index

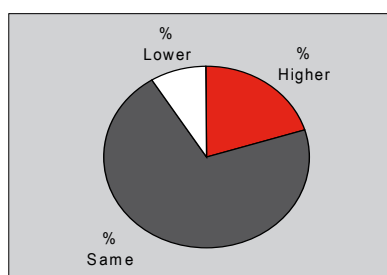
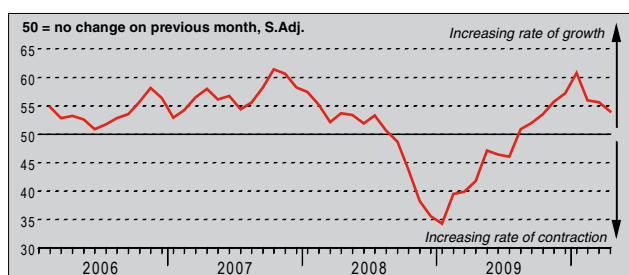
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Delivery times of inputs to Brazilian manufacturers lengthened in April as demand for raw materials strengthened. Data pointed to another solid deterioration in average vendor performance. Lead times have increased in each of the past nine months, reflecting the expansionary trend in buying activity at manufacturers. However, the latest deterioration in performance was the least pronounced since January, with less than 6% of firms noting slower deliveries.

Quantity of Purchases Index

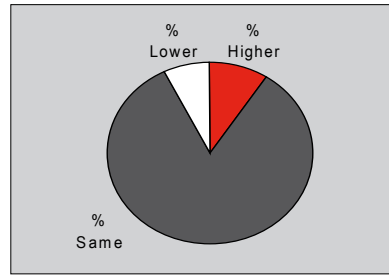
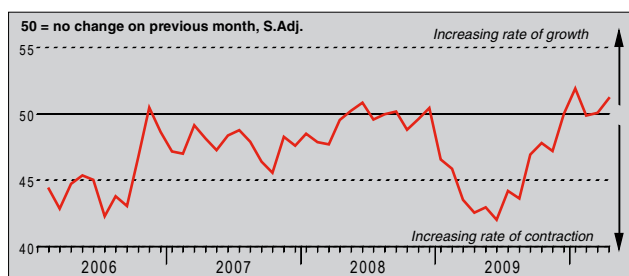
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



As economic conditions improved and demand for Brazilian manufactures rose further in April, companies upped their buying activity. More than one-fifth of respondents acquired additional raw materials, also partly linking this to attempts to build up pre-production inventories. Consequently, the overall volume of purchases in the sector grew at a robust pace since March, although this was weaker than over the previous five survey periods.

Stocks of Purchases Index

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



Pre-production stocks at Brazilian manufacturers grew at an accelerated pace over the latest survey period. The accumulation was moderate, after only a fractional rise was recorded in March. Holdings rose as a result of another increase in input buying activity, according to panel members. Data showed that the further expansion during April was in contrast to the long-run average for the series, which signalled solid 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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