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HSBC Brazil Manufacturing PMI

Output and new order growth eased to nine-month lows in May. Input price inflation moderated slightly, but remained strong.

Key findings:

- PMI slipped further from January's record peak.
- New export orders declined for second month running.
- Both input and output prices rose at weaker rates.

Although operating conditions across Brazil's manufacturing economy continued to strengthen in May, as signalled by a headline seasonally adjusted Brazil Manufacturing PMI™ reading of 52.4, the rate of improvement slowed for the fourth month running from January's series record peak (57.8). The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy. Underlying the fall in the headline index were weaker expansions in output, new orders, employment and input stocks.

Brazilian manufacturers raised activity levels during May in response to further gains in new work. Both output and total new business rose moderately since April, but at the weakest rates for nine months. Moreover, the expansions were slower than their respective long-run series trends for the first time since August last year. Weighing on total levels of new work was another slight decline in new export orders. Companies stated that an unfavourable exchange rate against the euro, the crisis in the Eurozone and competitive pressures (particularly from China) had resulted in lower external demand. Consequently, data suggested that the domestic market was the primary support of new business growth.

Respondents noted another build-up of unfinished work during the latest survey period. Backlogs at Brazilian manufacturing units accumulated for a ninth consecutive month, albeit only modestly.

Further job creation was recorded by Brazilian manufacturers in

May. Employment levels rose for the ninth consecutive month as companies made efforts to expand capacity and accommodate higher demand. However, the rate of expansion moderated for the third straight month, in line with the slower rise in workloads.

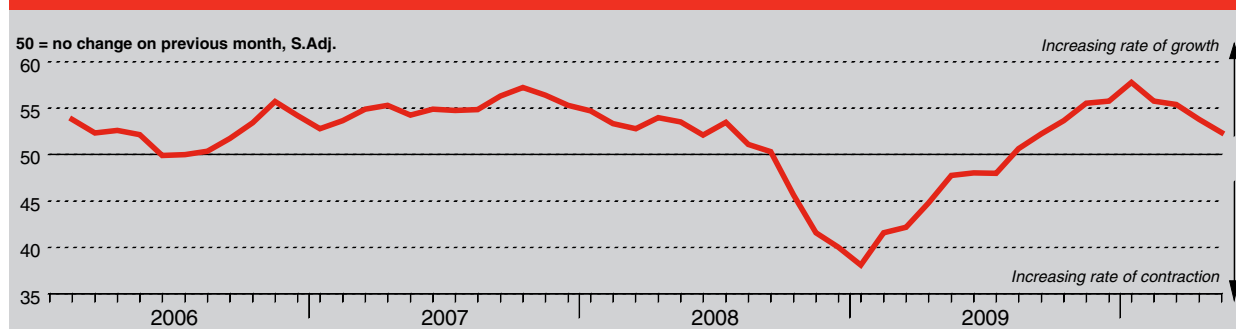
Manufacturers continued to restock in May. Both pre- and post-production inventories rose on the month, although in each case this was at only a marginal rate that was weaker than during April. Anecdotal evidence suggested that stock building reflected good business conditions and higher production requirements.

Buying activity increased for the tenth month running in May, albeit at the mildest rate since September 2009. The slower rise in purchasing reflected weaker growth in new work.

As demand for inputs rose in May, Brazilian manufacturers noticed another deterioration in vendor performance. Lead times lengthened at a solid and accelerated pace on the month, which panellists also linked to raw material shortages.

Price pressures eased slightly during May, with increases in both input and output prices slowing. However, both measures remained above their long-term trends, with average purchasing costs continuing to increase sharply. Panel members indicated that greater raw material prices drove the latest round of input cost inflation. Meanwhile, charges were lifted to protect profit margins from rising costs.

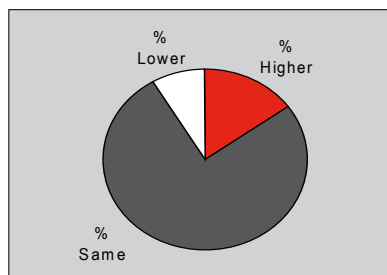
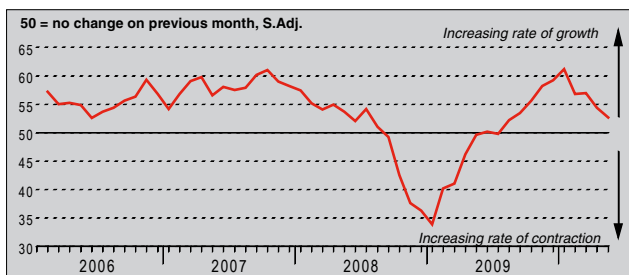
HSBC Brazil Purchasing Managers' Index (PMI™)



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

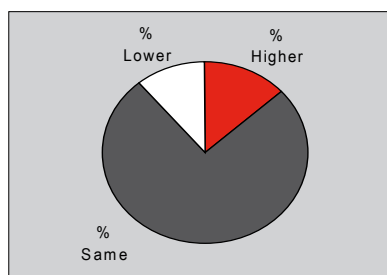
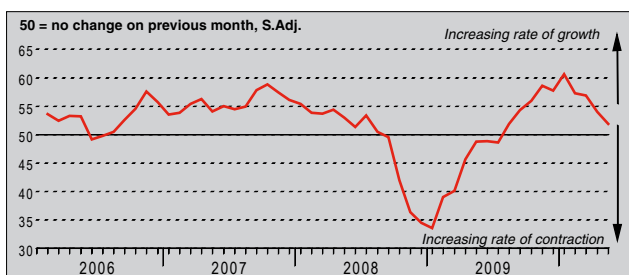
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Brazil increased for the tenth month in succession during May. Respondents attributed the latest growth to higher levels of new business. However, the rate of expansion moderated for the second straight month to only a modest pace. Furthermore, with only 15% of the survey panel raising manufacturing activity since the previous month, the increase was the mildest since August 2009 and below the series' long-term trend.

New Orders Index

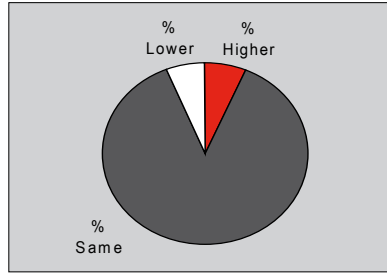
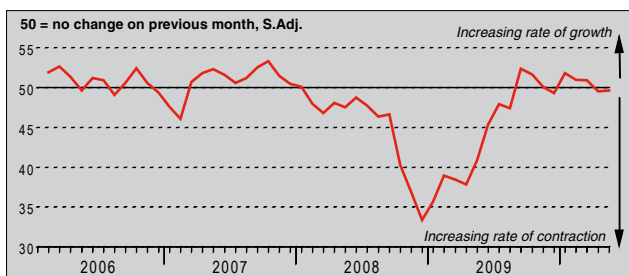
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Slipping further from January's peak, the seasonally adjusted New Orders Index registered its weakest reading for nine months in May. The latest figure pointed to only a modest rate of increase, which contrasted sharply with the considerable monthly expansions recorded in recent months. As with output growth, May's rise in new business was weaker than the long-run series average, albeit only slightly. Down from one-fifth in April, 13% of Brazilian manufacturers noted a rise in new work, citing stronger market demand and good business conditions.

New Export Orders Index

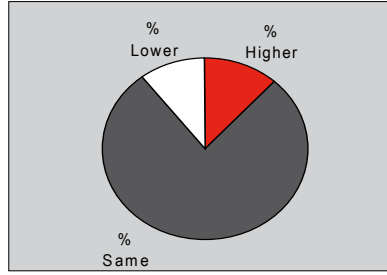
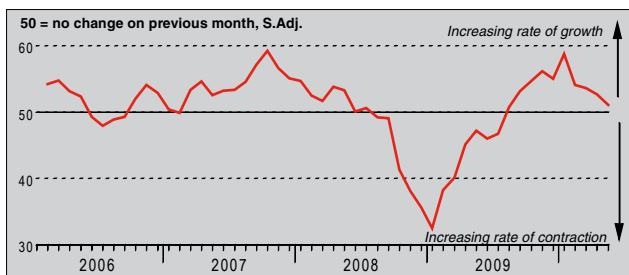
Q. Please compare the level of new export orders received this month with the situation of one month ago.



For the second month running in May, receipts of new export business at Brazilian manufacturers were down. However, the rate of contraction was only fractional and weaker than in April. Anecdotal evidence indicated that a stronger real against the euro, the crisis in the Eurozone and a lack of competitiveness (particularly against Chinese manufacturers) were all key reasons for lower foreign demand. The declines in new work in April and May followed three months of growth at the start of the year.

Backlogs of Work Index

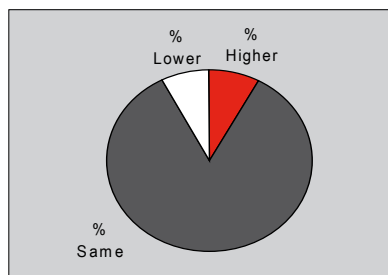
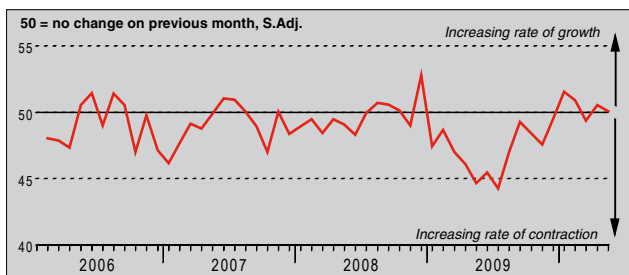
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Brazilian manufacturing units continued to accumulate during the latest survey period. The predominant factor behind the build-up was higher levels of new work. Outstanding business in the sector has now increased for ten consecutive months, following a year-long sequence of decline. However, data showed that May's rise in volumes of unfinished work was only moderate and the least marked since August 2009.

Stocks of Finished Goods Index

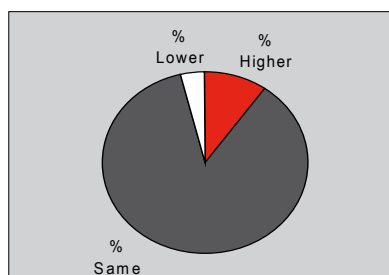
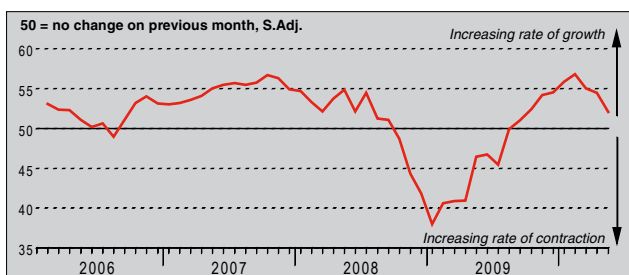
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of post-production goods at Brazilian manufacturing plants were largely unchanged in May. This was indicated by the seasonally adjusted Stocks of Finished Goods Index, which posted close to the neutral threshold of 50.0, below April's reading. Where inventories built up on the month, reports indicated that this was due to a combination of restocking and delivery delays caused by heavy rains. Firms that recorded lower holdings linked this to higher-than-expected sales levels.

Employment Index

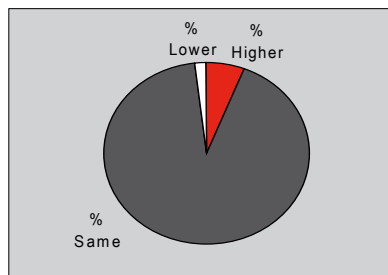
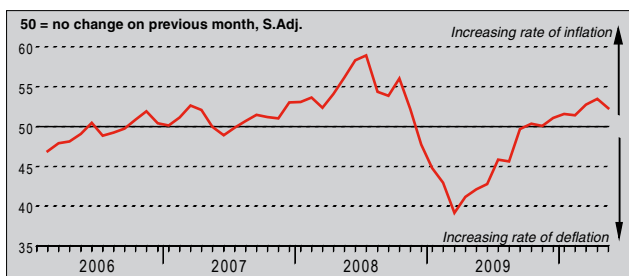
Q. Please compare the level of employment at your unit with the situation one month ago.



Brazilian manufacturers added to their workforces during May, bringing the current run of expansion to nine months. Although growth was only moderate and the weakest since September last year, it was nevertheless faster than the long-run series average. Companies monitored by the survey reported that extra manpower was needed to meet production requirements. One-tenth of respondents hired more staff since April, against just 4% that cut personnel.

Output Prices Index

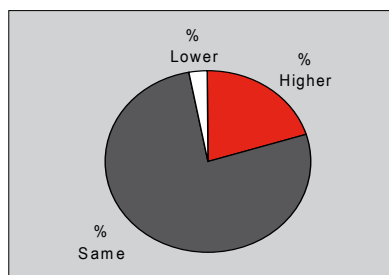
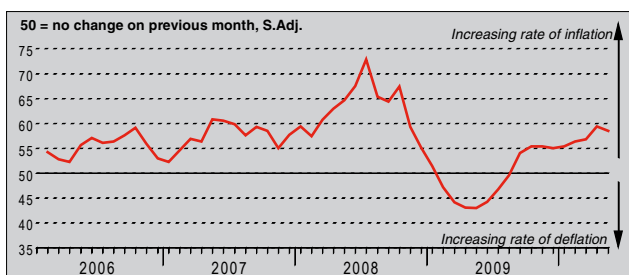
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Respondents reported another increase in prices charged for Brazilian manufactures during May. Factory gate prices rose for the eighth month running and at a moderate pace. Companies indicated that tariffs were raised in order to compensate for higher input costs. However, the seasonally adjusted Output Prices Index slipped from April's one-and-a-half year peak, signalling a slowdown in the rate of inflation. The latest rise was the weakest for three months.

Input Prices Index

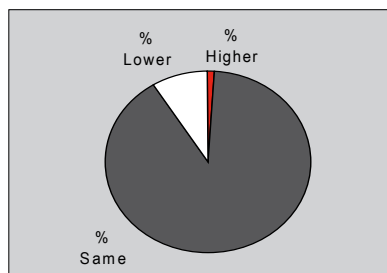
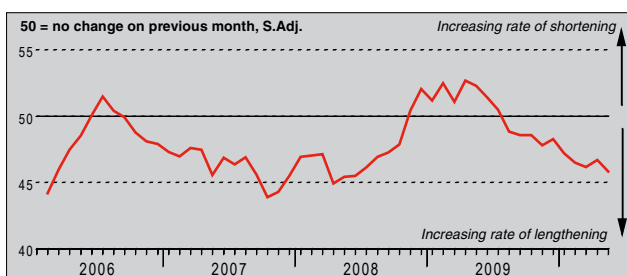
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Greater raw material prices underpinned another sharp rise in purchasing costs across Brazil's manufacturing economy in May. Panel members commented on higher prices for steel and steel-products, nickel, plastics, paper and paper-related items, chemicals, food-related items, cotton and packaging. Firms have recorded input price inflation for the past nine months, although the rate of increase cooled slightly during the latest survey period.

Suppliers' Delivery Times Index

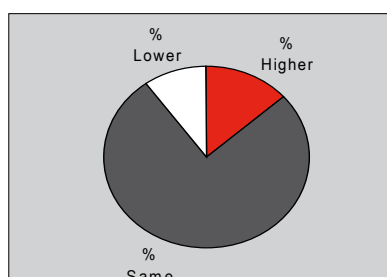
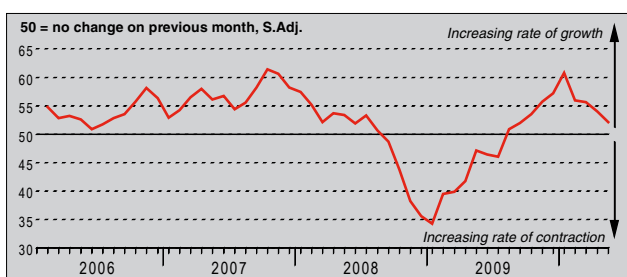
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



A combination of increased demand for inputs and shortages of certain commodities led to longer lead times on suppliers' deliveries in May, according to panellists. With 9% of the survey panel noting worse vendor performance, against just 1% reporting an improvement, average delivery times increased at a solid and accelerated rate on the month. Moreover, the latest deterioration was the sharpest for almost two years.

Quantity of Purchases Index

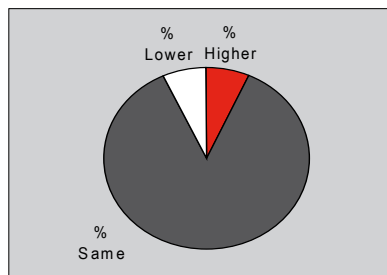
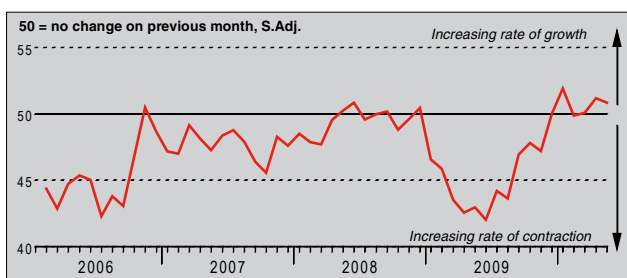
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In response to greater new order numbers and increased production, Brazilian manufacturers upped their buying activity during May. Purchasing grew for the tenth straight month and at a moderate pace. However, with under 14% of survey participants acquiring additional inputs, down from over one-fifth in April, the pace of expansion eased again. Data showed that the latest rise in purchasing activity was the weakest since September 2009.

Stocks of Purchases Index

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



Latest data pointed to a marginal increase in holdings of raw materials and intermediate goods at Brazilian manufacturers in May. The rise in pre-production inventories, which was the third in succession, was milder than in April. Manufacturers that added to their input stocks stated that this was to accommodate greater production requirements. The increase was in contrast with the series long-run average, which signalled a moderate rate of decline.

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 around 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: 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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