

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

HSBC Brazil Manufacturing PMI

Output and new order growth accelerated in June, but remained relatively subdued.

Key findings:

- PMI up from May's eight-month low, but only slightly.
- New export business unchanged after two months of contraction.
- Job creation remained modest.

Operating conditions across Brazil's manufacturing economy improved at a marginally faster rate at the end of the second quarter. The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – climbed slightly from May's eight-month low of 52.4 to 52.7 in June. However, the PMI continued to signal a relatively subdued pace of expansion, remaining below its average over the past year.

After slowing to nine-month lows in May, both output and new business growth picked up slightly in June. Although the expansions in both variables were solid, they remained muted in comparison to the marked increases recorded during the first quarter of the year. Data indicated that the home market remained the primary driver of total new order growth, as incoming new work from abroad was unchanged overall. Panellists linked higher demand levels to a combination of improved economic conditions and successful promotional campaigns.

Although manufacturing activity was raised again in June, it was not sufficient to clear backlogs of work or build finished goods stocks. Outstanding business accumulated at a modest pace as a result. Meanwhile, post-production holdings fell for

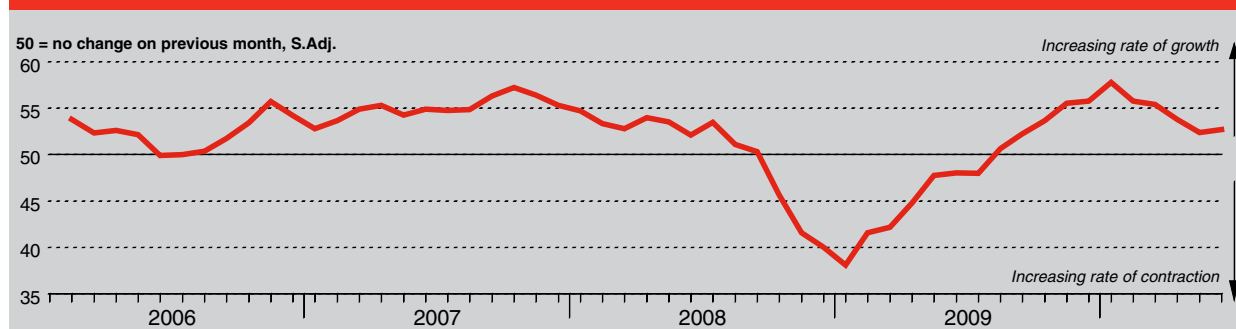
the first time in three months, albeit only fractionally.

To expand capacity and accommodate higher workloads, Brazilian manufacturers hired additional personnel and raised buying activity during the latest survey period. Employment expanded at a moderate pace that was little-changed from the eight-month low recorded in May, while purchasing increased at a solid and slightly accelerated rate. However, the faster rise in input acquisitions was not enough to replenish pre-production holdings, which fell marginally on the month.

Reflecting greater demand for inputs, lead times on deliveries of raw materials and semi-finished goods to Brazilian manufacturers lengthened during June. However, the latest deterioration in supplier performance was less marked than in May.

Overall inflationary pressures across Brazil's manufacturing industry were broadly unchanged in June. Both input and output price increases were only fractionally weaker than those registered in May. Data signalled another considerable increase in purchasing costs, which panel members attributed to higher fuel and raw material prices. Meanwhile, charges continued to rise modestly as manufacturers sought to compensate for growing cost burdens.

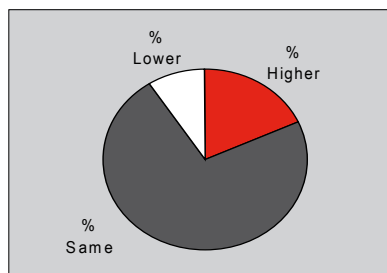
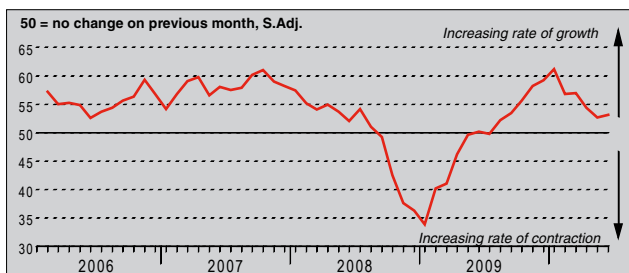
HSBC Brazil Purchasing Managers' Index (PMI™)



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

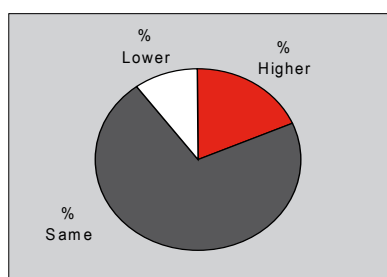
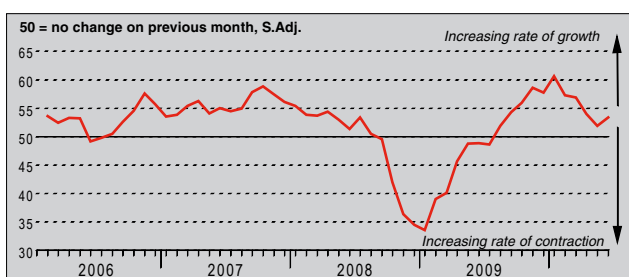
Q. Please compare your production/output this month with the situation one month ago.



To accommodate faster growth of new business, Brazilian manufacturers raised production again in June. Activity levels increased at a solid and accelerated rate, after slowing to a nine-month low in May. Even so, output growth remained subdued in relation to the sharp rates recorded in the first quarter of 2010.

New Orders Index

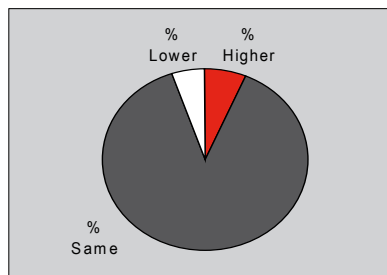
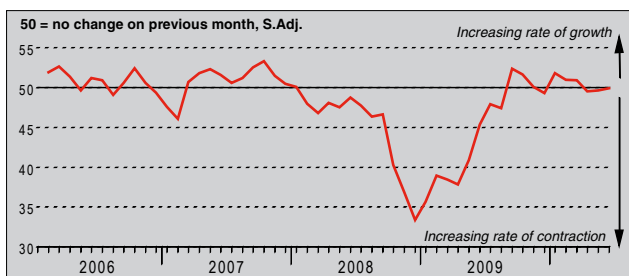
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



After sinking to a nine-month low in May, the seasonally adjusted New Orders Index regained some ground at the end of Q2. The latest reading pointed to a solid rate of growth, with around 19% of monitored Brazilian manufacturers recording higher new order receipts on the month. Reports showed that a combination of improved economic conditions and successful marketing campaigns were the key factors supporting sales.

New Export Orders Index

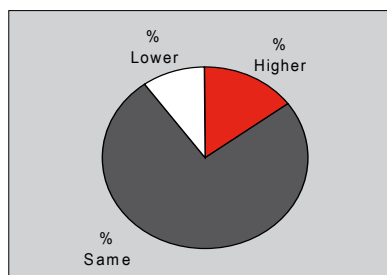
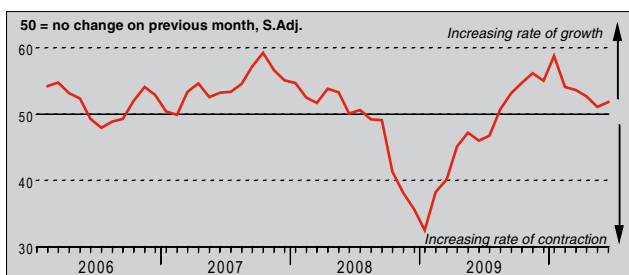
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders taken by Brazilian manufacturers remained unchanged in June, following two months of slight contraction. Companies that reported a rise in external sales primarily linked this to favourable market conditions, while those that posted a decline commented on international competitive pressures.

Backlogs of Work Index

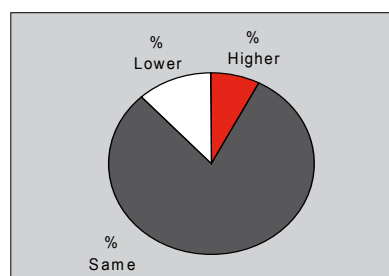
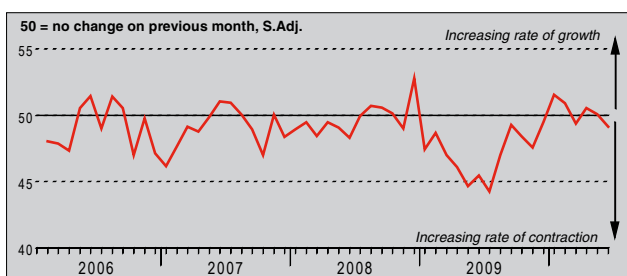
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Brazilian manufacturers stated that further growth of backlogs in June primarily reflected higher new order numbers. Volumes of outstanding business increased at a slightly accelerated (but still modest) pace, with 15% of the survey panel noting a build-up. However, the rate of accumulation remained weaker than the average for 2010 so far.

Stocks of Finished Goods Index

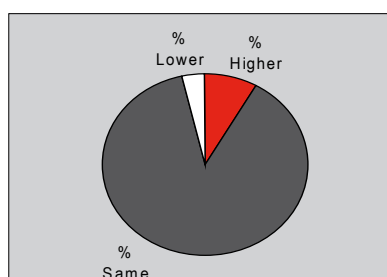
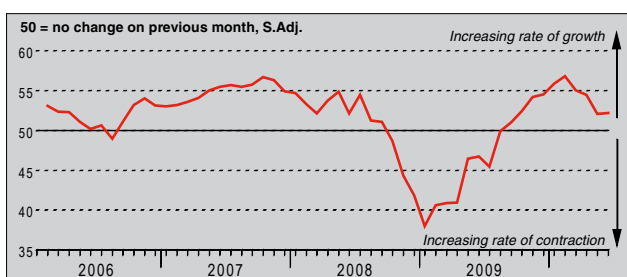
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



For the second time in the past four months, finished goods stocks at Brazilian manufacturers contracted in June. Inventory management policies was the main reason for lower holdings, according to respondents. However, the rate of decrease was only fractional, as the vast majority of companies (over 80%) saw no change in stocks since May.

Employment Index

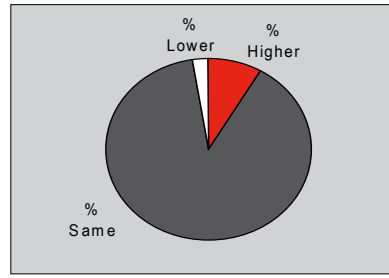
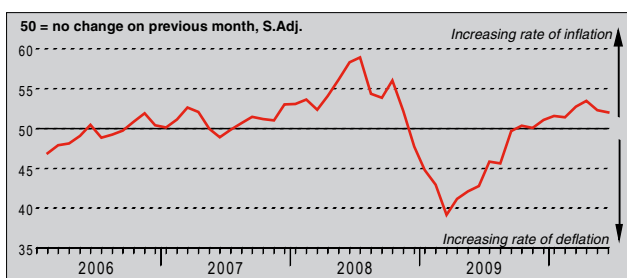
Q. Please compare the level of employment at your unit with the situation one month ago.



After accounting for seasonal variation, the Employment Index was virtually unmoved from May's eight-month low in June. The latest figure signalled another modest rise in staffing numbers across Brazil's manufacturing economy. Firms indicated that extra workers were needed to expand capacity and cope with higher demand levels.

Output Prices Index

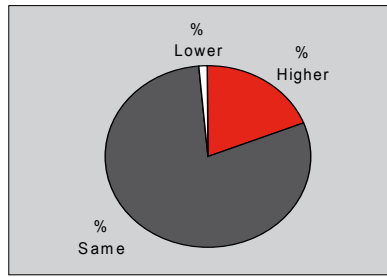
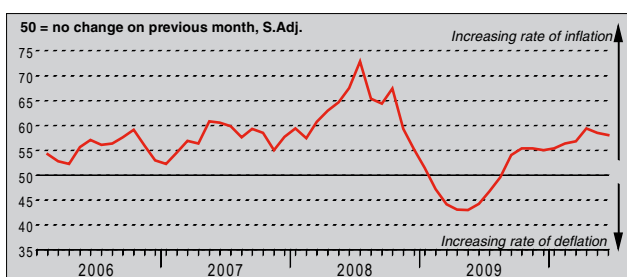
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Brazilian manufacturers continued to raise their charges during June. Output prices in the sector increased at a modest pace overall, with 9% of companies noting a rise. In contrast, just 3% registered a fall. Anecdotal evidence suggested that tariffs were increased in an effort to pass on higher input costs to customers.

Input Prices Index

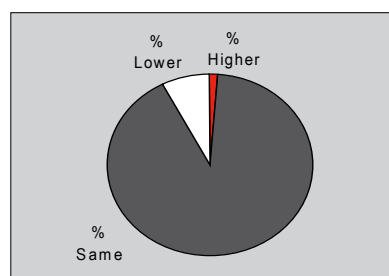
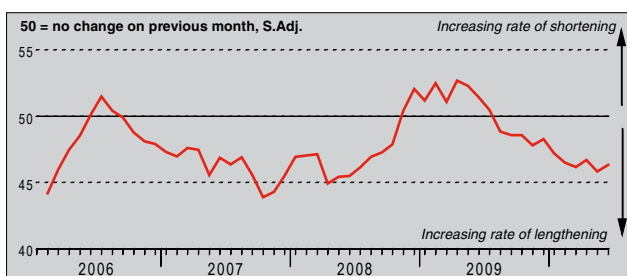
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Purchasing costs faced by Brazilian manufacturers continued to rise during the latest survey period, extending the current sequence of inflation to ten months. Although the rate of increase eased fractionally since May, it remained considerable and above the long-term average for the series. Respondents cited higher fuel and raw material costs as the key factors driving input price inflation.

Suppliers' Delivery Times Index

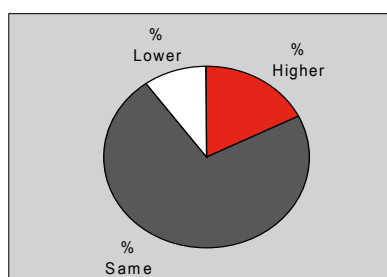
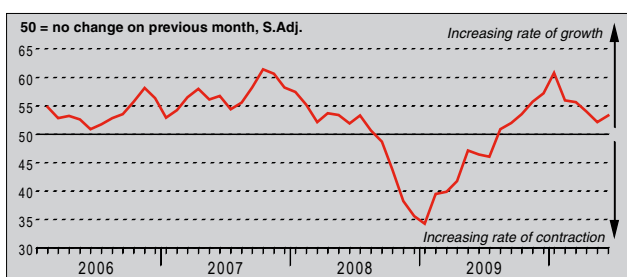
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



As demand for inputs intensified in June, lead times on deliveries of raw materials and semi-finished goods to Brazilian manufacturers lengthened further. Vendor performance has now worsened continually for almost a year, although the latest deterioration was less marked than in the previous month.

Quantity of Purchases Index

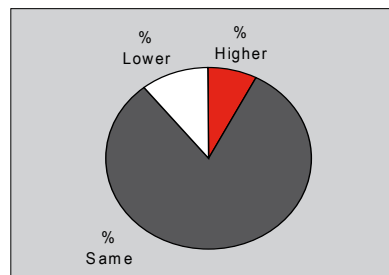
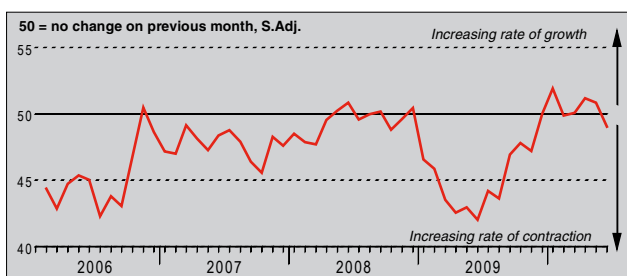
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Buying activity at Brazilian manufacturers increased at a solid and accelerated pace in the final month of Q2. Approximately 18% of companies reported growth, stating that input purchases were raised in order to meet greater production requirements. Even so, the latest expansion was the second-weakest in the past nine months.

Stocks of Purchases Index

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



After three months of growth, pre-production inventories at Brazilian manufacturing units fell in June. Reports suggested that the primary reason for reduced holdings was stock management policies. However, the seasonally adjusted Stocks of Purchases Index posted just below the 50.0 no-change mark, signalling only a slight rate of 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 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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