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HSBC Brazil Manufacturing PMI™

PMI back below 50.0 in October, signalling slight deterioration in business conditions.

Key findings:

- Output and new orders fell slightly.
- Employment unchanged since September.
- Inflationary pressures remained modest.

October manufacturing data for Brazil showed a deterioration in business conditions within the sector, following a slight improvement during September. Output and new business fell, while a thirteen-month period of employment growth came to an end. Despite weaker market demand, firms continued to raise their charges in order to pass on higher input costs to customers – a factor which some firms linked to lower sales levels.

Sinking to 49.5, from 50.4 in September, the headline seasonally adjusted HSBC Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing sector – signalled a slight decline in the health of Brazil's manufacturing economy. Data have pointed to worsening operating conditions in two of the past three months.

For the third month running, Brazilian manufacturers reported a reduction in new order receipts during October. Although the rate of contraction accelerated, it remained modest. Companies stated that lower demand, strong competition and uncertainty surrounding recent elections all underlay the dip in new business. Some respondents also mentioned that their charges were too high to be competitive. New export orders declined at a faster rate than total new work during the latest survey period.

Backlogs of work across the Brazilian manufacturing industry

continued to be depleted in October, and at the fastest rate since June last year. Panel members linked lower levels of unfinished business to another decline in new orders. Work-in-hand has fallen for four straight months.

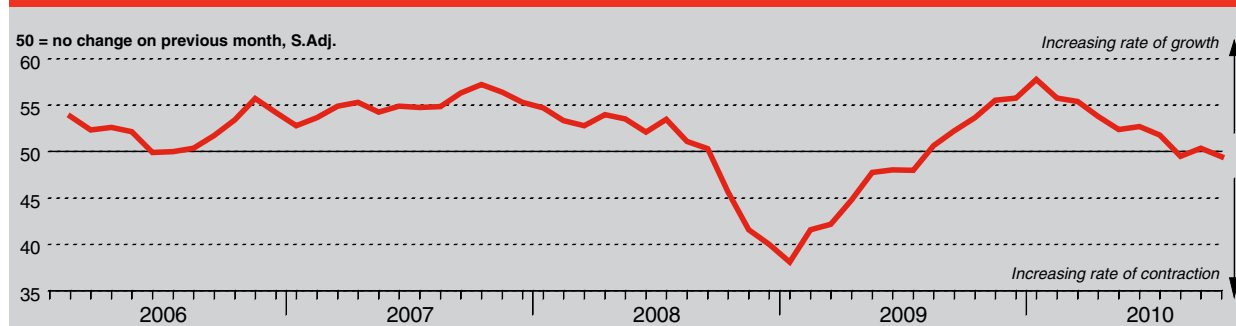
Brazilian manufacturers halted their intake of new staff in October as workloads decreased further. Consequently, a thirteen-month period of job creation ended as the vast majority of monitored companies maintained personnel levels since September.

Input acquisitions at Brazilian manufacturers were cut more sharply in October, which panellists linked to a combination of fewer new orders and stock depletion policies. Pre-production inventories fell further as a result, although the rate of decline remained only slight.

Average vendor performance continued to deteriorate at the start of Q4, despite weaker demand for inputs. Firms cited low capacity at suppliers as the main reason for longer lead times.

Both input and output price inflation was moderate in October. Anecdotal evidence suggested that higher input costs largely reflected increased prices for raw materials, particularly cotton, metals and certain food-related items. Meanwhile, reports indicated that firms raised their charges to cover growth in their average cost burdens.

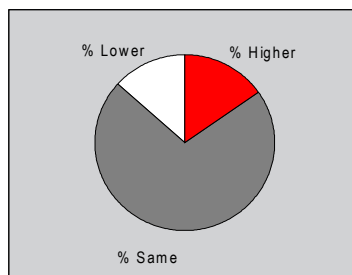
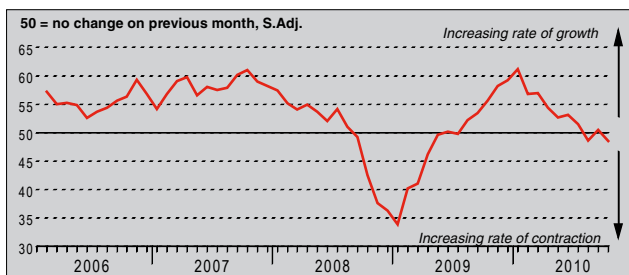
HSBC Brazil Purchasing Managers' Index (PMI)



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

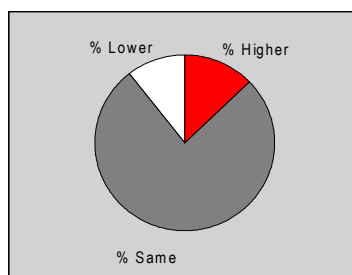
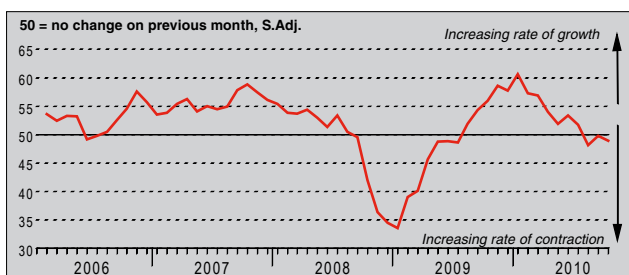
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index dipped back below the no-change mark of 50.0 in October, signalling a second contraction in Brazilian manufacturing production in the past three months. The latest reading pointed to a modest decline in activity levels since September. Panel members cited less new business as the key factor behind the decrease in output.

New Orders Index

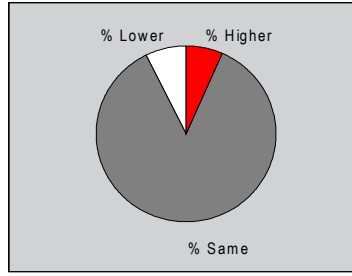
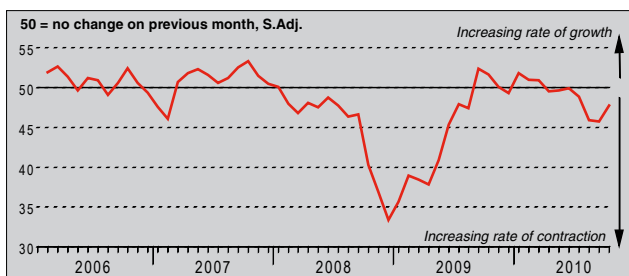
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Brazilian manufacturers reported another decline in new business receipts in October. Although the rate of contraction accelerated slightly since September, it remained modest. Firms mostly linked lower demand to strong competition and uncertainty related to recent elections. However, some noted that their charges were too high. Data suggest that the dip in total new orders reflected particular weakness in external demand.

New Export Orders Index

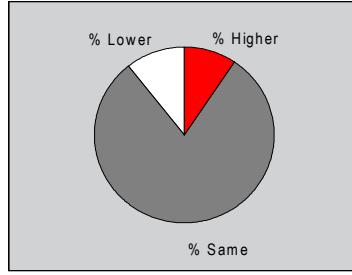
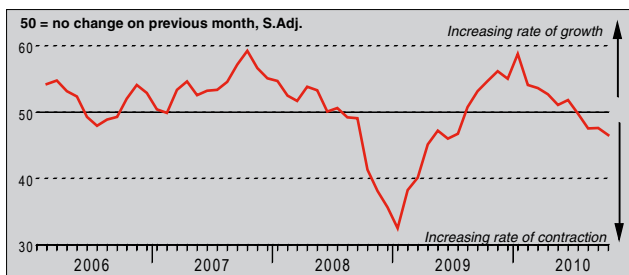
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Although the seasonally adjusted New Export Orders Index climbed to a three-month high in October, it remained below the neutral mark of 50.0. The latest reading pointed to a moderate contraction in new orders from abroad at Brazilian manufacturers. Reports suggested that difficult economic conditions in certain Western countries and strong international competition were the main reasons for reduced external demand.

Backlogs of Work Index

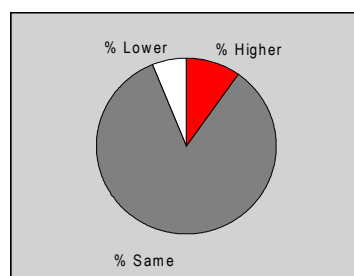
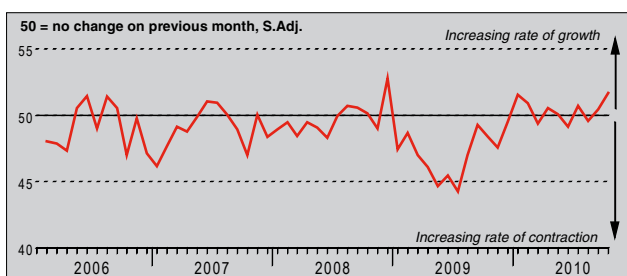
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of unfinished business at Brazilian manufacturers continued to fall during the latest survey period, and at the fastest rate since June last year. Companies monitored by the survey stated that falling workloads was the key factor underlying October's reduction of backlogs. Unfinished work in the sector has now declined for four straight months.

Stocks of Finished Goods Index

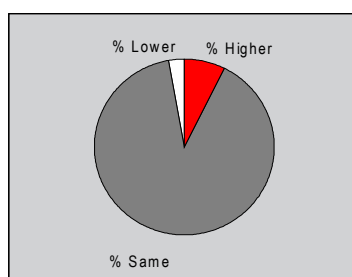
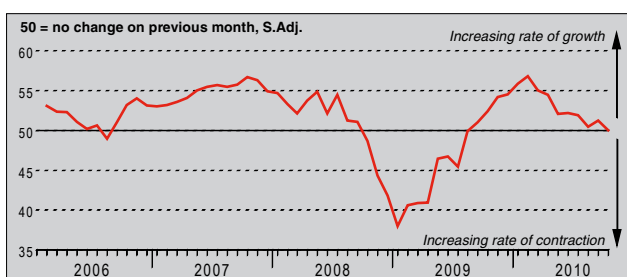
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Accelerating since September, growth of finished goods stocks at Brazilian manufacturers was moderate in October and the sharpest for twenty-two months. Around one-tenth of the survey panel noted an increase in holdings, which they attributed to lower new business. In comparison, just 6% registered a contraction.

Employment Index

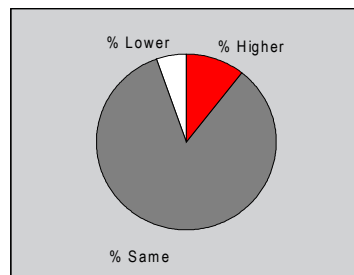
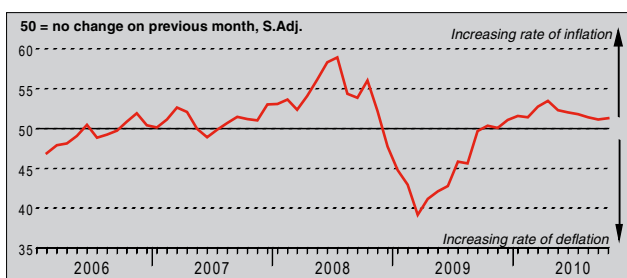
Q. Please compare the level of employment at your unit with the situation one month ago.



Overall employment across the Brazilian manufacturing industry was unchanged in October, ending a thirteen-month sequence of expansion. Where jobs growth was reported, firms often cited expectations of improved demand in future. Companies that trimmed their staffing levels mostly commented on lower workloads.

Output Prices Index

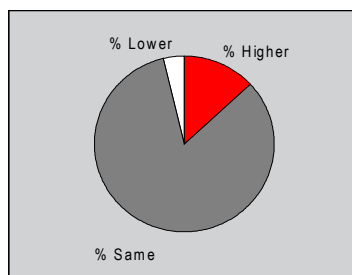
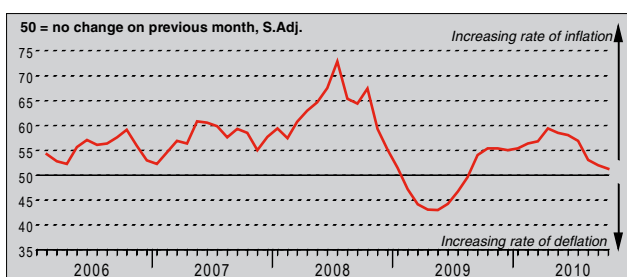
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Largely unmoved from its position in September, the Output Prices Index signalled another moderate rise in Brazilian manufacturing charges during October. Anecdotal evidence pointed to higher input costs as the key factor driving the latest round of output price inflation. However, the rate of increase remained weaker than the average for the year-to-date.

Input Prices Index

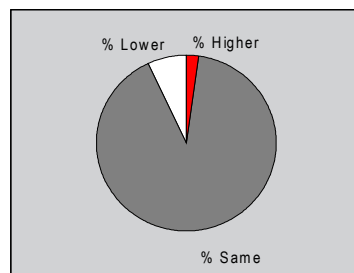
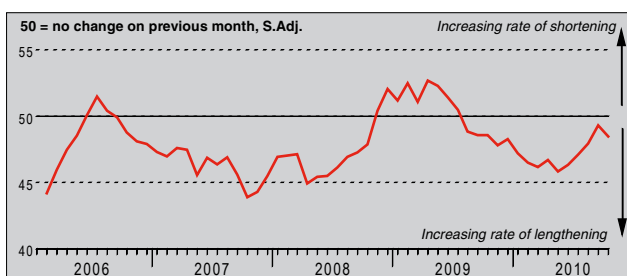
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation faced by Brazilian manufacturers continued to slow at the start of Q4. The latest rise was only moderate and the mildest of the current fourteen-month sequence of increase. Where companies registered greater average input costs, most cited higher raw material prices, particularly for cotton, metals and certain food-related items.

Suppliers' Delivery Times Index

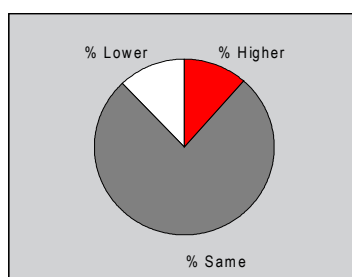
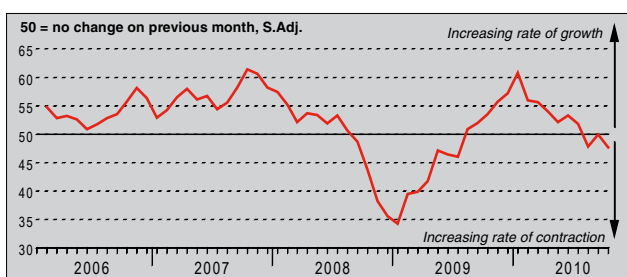
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Brazilian manufacturers reported another worsening of average vendor performance in October. Supplier delivery times lengthened for the fifteenth month in succession and an accelerated pace. That said, the latest deterioration was only modest and weaker than the average for the sequence. Panellists stated that capacity restrictions at suppliers contributed to increased delivery times.

Quantity of Purchases Index

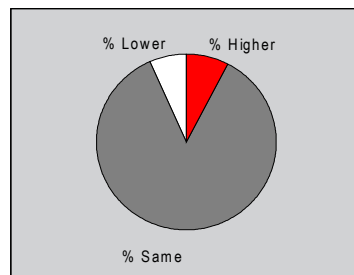
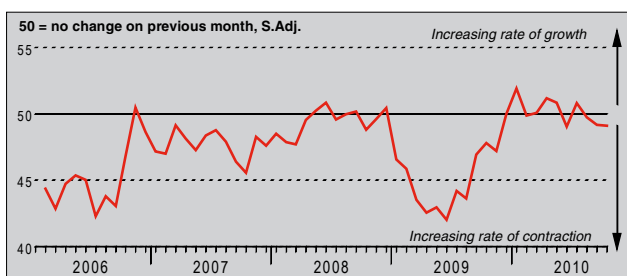
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Fewer new orders and efforts to reduce inventories led to another decline in buying activity at Brazilian manufacturers during October. Purchasing fell solidly and at the fastest rate since July 2009. The contraction in input acquisitions was in contrast to the year-to-date average for the series, which points to a moderate rate of growth.

Stocks of Purchases Index

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



Holdings of raw materials and semi-finished goods at Brazilian manufacturers fell for the third month in succession during October. Although fractionally faster than in September, the rate of decrease remained only slight and weaker than the series trend. The depletion in input holdings largely reflected another decline in purchasing activity, according to panel members.

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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