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HSBC Brazil Manufacturing PMI™

PMI climbed above 50.0 in December for first time in three months.

Key findings:

- Output and employment growth both gained pace.
- New orders rose for first time in five months.
- Input price inflation accelerated sharply.

December data pointed to a more promising end to the year for Brazilian manufacturers, as output and employment expanded at faster rates and new orders grew for the first time in five months. However, input price inflationary pressures picked up sharply.

Reflecting improvements in its key components, 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 – registered above the no-change mark of 50.0 in December for the first time in three months. At 52.4, up from 49.9 in November, the PMI signalled a moderate gain in the health of Brazil's manufacturing economy. However, the latest reading remained below the series' twelve-month average.

Incoming new work to the Brazilian manufacturing industry rose at a robust rate at the end of Q4, following four straight months of contraction. Growth reflected improvements in both domestic and foreign demand, although data suggested that the former remained stronger. Panellists commented on more favourable business conditions.

An increase in new orders led Brazilian manufacturers to raise both production and employment in December. Each expanded at a solid rate that was the fastest for six and eight months respectively.

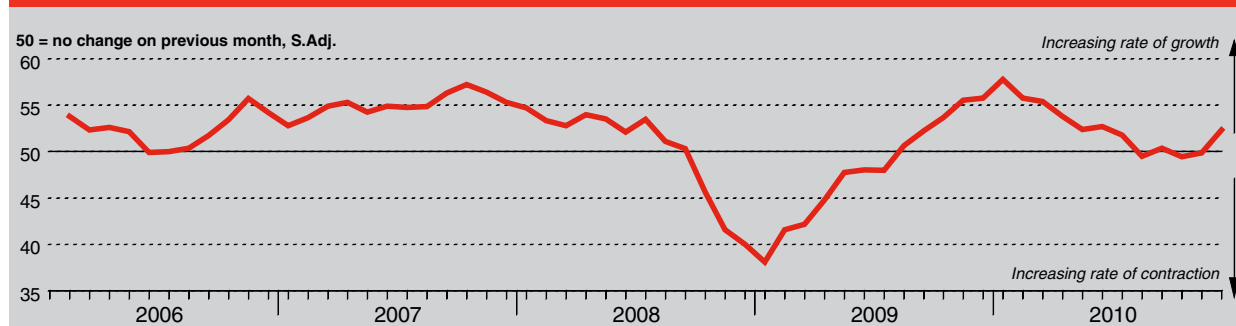
Reflecting the upward trend in new work, purchases were increased in December. The expansion in buying activity was moderate and the sharpest since June, albeit not sufficient to rebuild input stocks, which continued to fall.

Brazilian manufacturers recorded another deterioration of vendor performance during the latest survey period. Lead times lengthened for the seventeenth month in succession and at a slightly accelerated pace. Anecdotal evidence suggested that delivery times increased due to higher demand for inputs.

Latest data indicated that workloads across Brazil's manufacturing sector remained manageable in December, despite a pick-up in new business. Backlogs were broadly unchanged since November, following five months of depletion.

Both input and output price inflation accelerated during December – the former noticeably and to a strong pace. Panel members blamed rising purchasing costs on higher raw material prices (especially those for cotton, plastic and food-related items). Reports indicated that greater demand for, and short supplies of, certain commodities put upward pressure on raw material prices. Meanwhile, Brazilian manufacturers solidly increased their charges in order to defend profit margins from escalating input costs. Factory gate price inflation was the sharpest for eight months as a result.

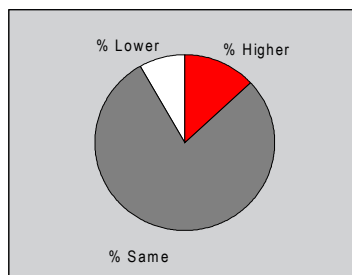
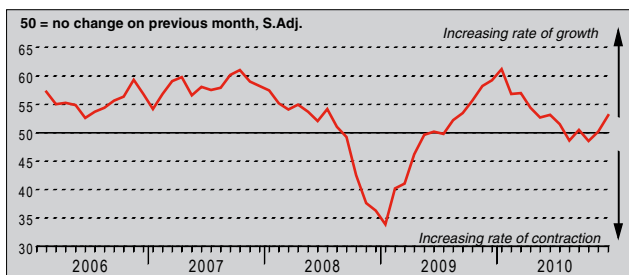
HSBC Brazil Purchasing Managers' Index (PMI)



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

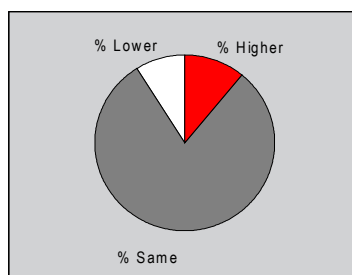
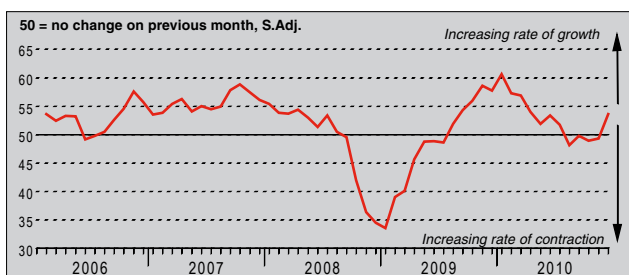
Q. Please compare your production/output this month with the situation one month ago.



Production levels in Brazil's manufacturing industry picked up to a solid pace in December. Output growth has now been recorded for two straight months, with the latest increase the fastest since June. Panel members commented on stronger market demand and an improvement in new order volumes.

New Orders Index

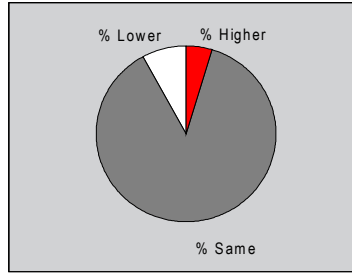
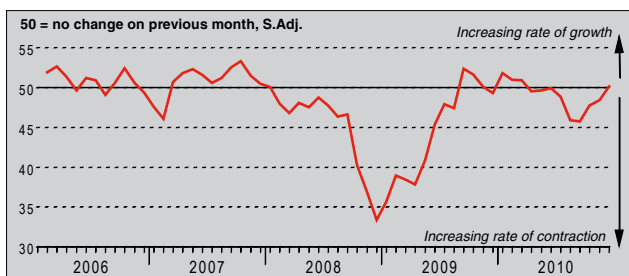
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



After a four-month run of contraction, incoming new work to Brazilian manufacturers expanded in December. The rate of increase was robust and the most pronounced for eight months. Anecdotal evidence indicated that favourable business conditions was the key driver of new order growth. Data suggested that demand from the domestic market was stronger than that from abroad.

New Export Orders Index

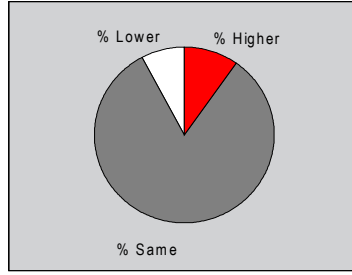
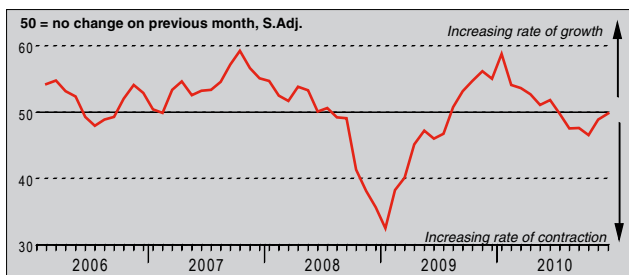
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for Brazilian manufactures improved during the latest survey period, as indicated by an expansion of new work from abroad. It was the first increase in new export business recorded for nine months. However, the seasonally adjusted New Export Orders Index registered only fractionally above the neutral mark of 50.0, pointing to a meagre rate of growth.

Backlogs of Work Index

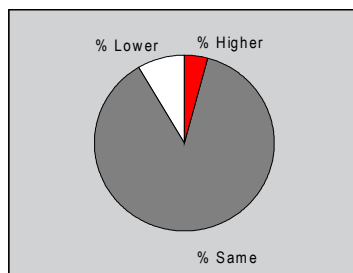
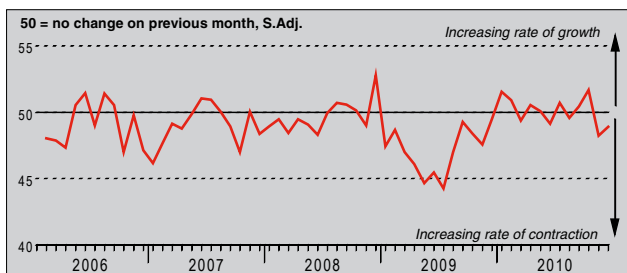
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index posted close to the no-change threshold of 50.0 in December – its highest level for six months. The latest reading signalled that work-in-hand at Brazilian manufacturers was largely unchanged since November, despite a pick-up in new business. This suggests that workloads in the sector remained manageable during the latest survey period.

Stocks of Finished Goods Index

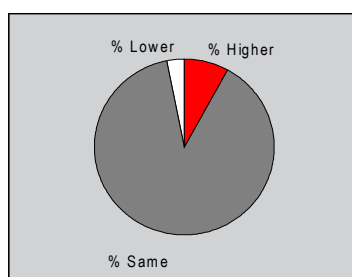
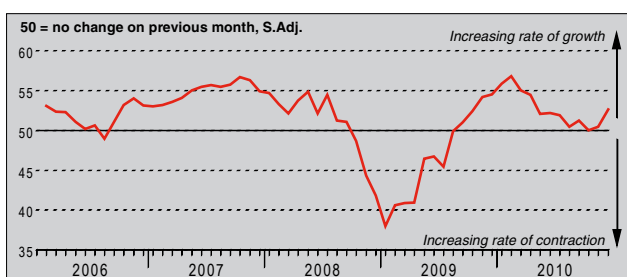
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



For the second month running, Brazilian manufacturers recorded a decline in their stocks of finished goods. However, post-production holdings fell only slightly and at a weaker rate than in November. Panel members stated that stock management policies and higher-than-expected sales underlay the latest decrease in final inventories.

Employment Index

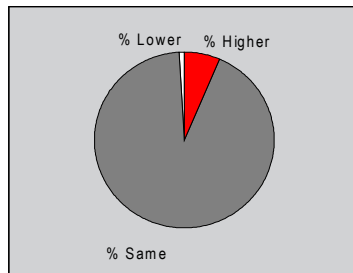
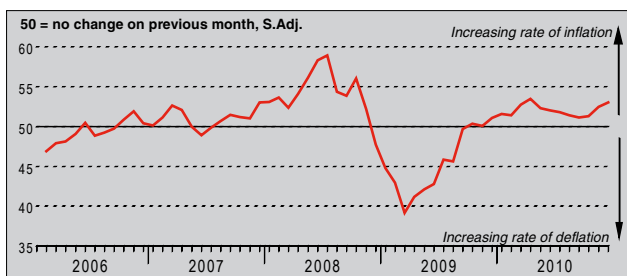
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth at Brazilian manufacturers picked up in December. Respondents stated that the latest round of job creation reflected both an improvement in business conditions and company expansions. Although only moderate, the rate of increase was above the series trend and the most marked since April.

Output Prices Index

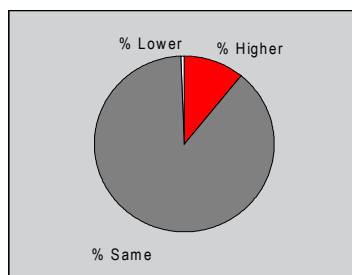
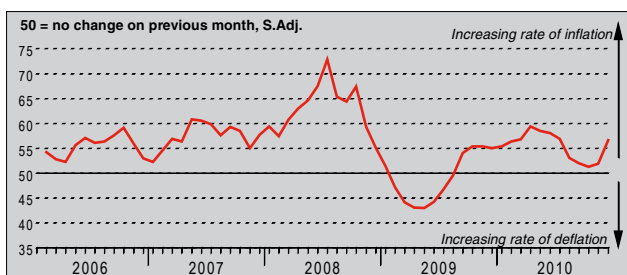
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for Brazilian manufactures increased solidly during December, and at the fastest rate for eight months. The main reason for raising factory gate prices, according to survey participants, was to compensate for rising input costs. Over 6% of firms hiked their tariffs on the month, against just 1% that trimmed them.

Input Prices Index

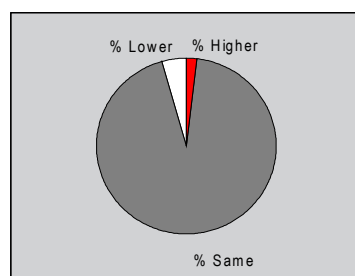
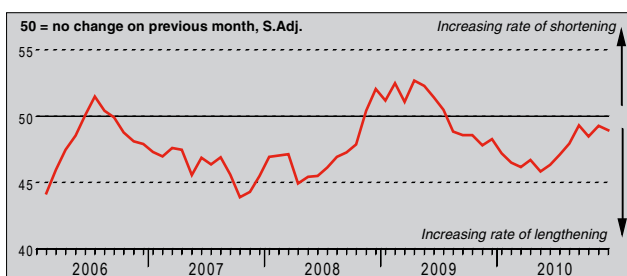
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation across Brazil's manufacturing industry picked up sharply at the end of Q4. The strong rise in purchasing costs contrasted with the modest increases of the previous three months. Reports showed that higher demand for, and short supplies of, certain raw materials pushed prices up. Firms made particular reference to the greater costs of cotton, plastic and food-related items.

Suppliers' Delivery Times Index

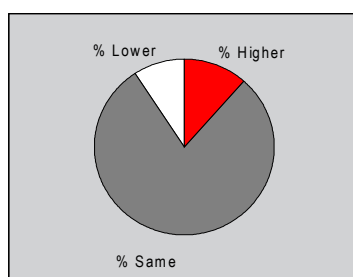
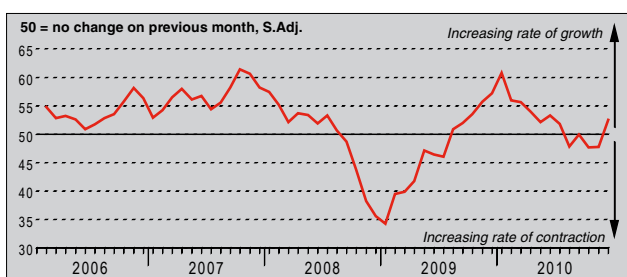
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Reflecting both stronger demand for inputs at Brazilian manufacturers and shortages of certain raw materials, suppliers' delivery times increased during December. Data pointed to a modest and accelerated deterioration in vendor performance. Lead times have lengthened continually for seventeen months.

Quantity of Purchases Index

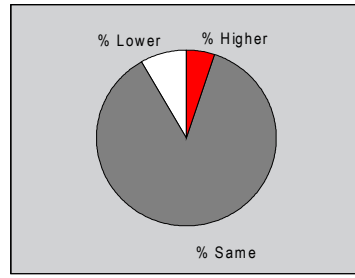
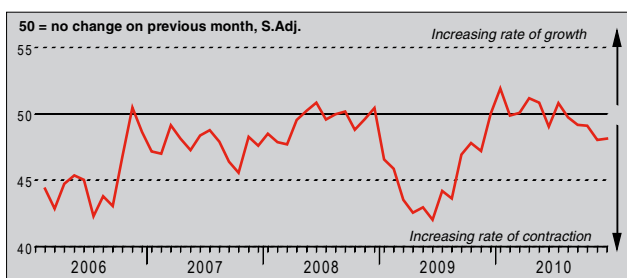
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Ending a four-month sequence of contraction, buying activity at Brazilian manufacturers increased in December. Purchases rose at a moderate pace since November, which respondents frequently linked to greater market demand. Some mentioned that inputs were acquired in order to secure supplies of raw materials in short supply.

Stocks of Purchases Index

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



A rise in buying activity was not sufficient to rebuild input stocks at Brazilian manufacturers in December. Consequently, holdings continued to fall at a moderate pace. Over 8% of the survey panel noted a contraction on the month, citing increased production and stock management policies. Pre-production inventories have now declined for five months in succession.

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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