

Embargoed until: 10:00 (SAO PAULO), 1 February 2011

HSBC Brazil Manufacturing PMI™

PMI signalled strongest improvement in business conditions for nine months.

Key findings:

- Expansions in production and new orders accelerated.
- Employment growth maintained at moderate pace.
- Price pressures eased.

The new year started relatively well for Brazilian manufacturers. Output and new order growth both accelerated, while job creation was maintained. Consequently, 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 – climbed to a nine-month high of 53.1, from 52.4 in December. The latest reading signalled a solid gain in the health of Brazil's manufacturing economy.

Incoming new business to the Brazilian manufacturing industry increased at a robust pace during January, supported by improvements in both domestic and foreign demand (although the former remained the key driver). The rate of expansion was the most marked for ten months and above the series trend. Respondents commented on a better economic environment.

Outstanding business at Brazilian manufacturers accumulated modestly and for the first time in seven months, reflecting larger new order volumes.

To keep up with faster new order expansion, manufacturers raised activity, hired extra staff and increased purchases at the start of Q1. Production grew at a robust pace that was the sharpest since April, while both employment and input acquisitions expanded moderately. Firms indicated that the

increase in buying activity was partly supported by efforts to hedge against future input price inflation.

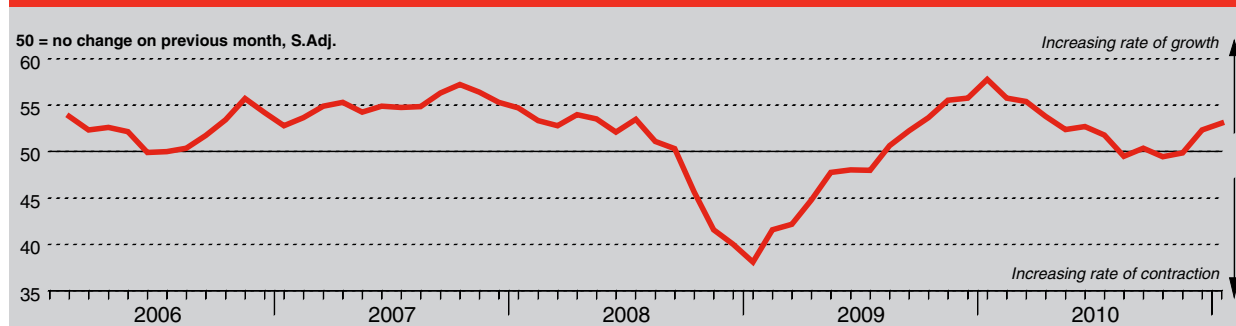
A sharper rise in purchases was not sufficient to rebuild input stocks in January. Pre-production holdings at Brazilian manufacturing units continued to fall, albeit at the weakest rate since October.

Extending the current sequence of deterioration to a year-and-a-half, suppliers' delivery times lengthened slightly in January. Panel members stated that poor domestic infrastructure and bad weather were key factors affecting vendor performance in the latest survey period.

Despite greater demand for inputs, Brazilian manufacturers reported a slower rise in their average purchasing costs during the latest survey period. Nevertheless, input price inflation remained solid and sharper than third and fourth quarter averages for 2010. Companies commented on the greater costs of a range of raw materials.

In line with the slowdown in input cost inflation, Brazilian manufacturers raised their tariffs at a weaker rate in January. Factory gate prices increased only slightly, following solid inflation during December. Charges have now risen for sixteen successive months.

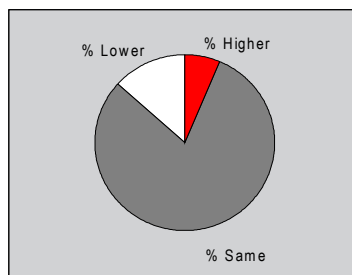
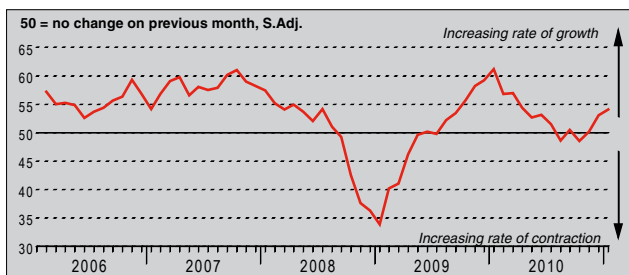
HSBC Brazil Purchasing Managers' Index (PMI)



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

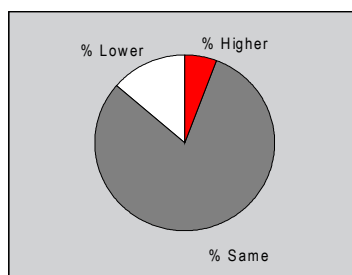
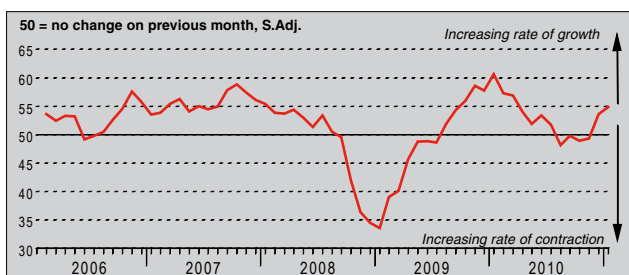
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturers raised activity levels for the third month running in January, and at an accelerated rate. Growth was robust and the fastest for nine months, which panel members attributed to improved economic conditions and further gains in new business. However, the rate of expansion was noticeably weaker than the series record seen in January 2010.

New Orders Index

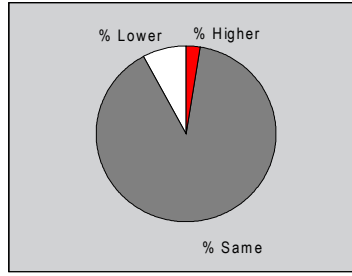
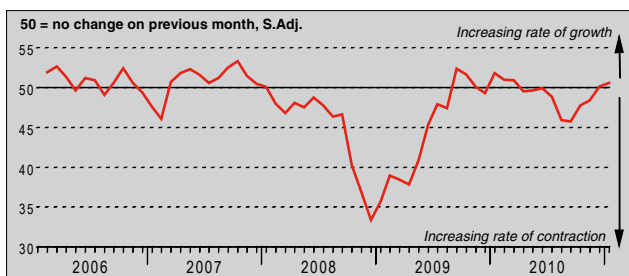
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Demand for Brazilian manufactures remained solid at the start of 2011, as shown by a robust increase in new work. Data suggested that the domestic market provided the main impetus to total new order growth, as new export business rose only slightly. Companies monitored by the survey cited a better economic environment as a key factor behind the inflow of new orders.

New Export Orders Index

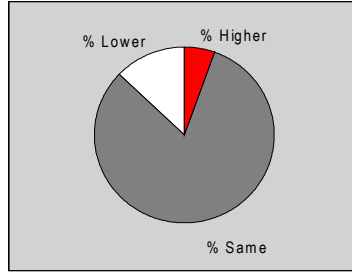
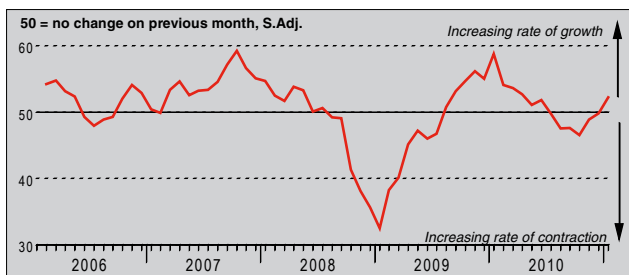
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index climbed further in January, reaching a ten-month high. Even so, the index remained close to the no-change mark of 50.0 to signal another slight rise in foreign demand for Brazilian manufactures. Favourable business conditions underlay the latest expansion, according to respondents.

Backlogs of Work Index

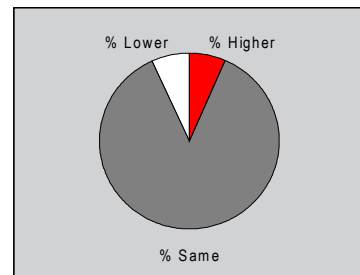
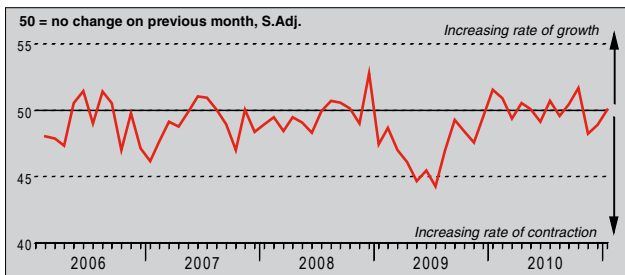
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Ending a six-month run of depletion, outstanding business at Brazilian manufacturers accumulated during January. The rate of increase was moderate and the sharpest since April. Panellists stated that backlog growth was due to heavier workloads as business conditions improved. However, the expansion was much milder than the twenty-seven month high registered in January last year.

Stocks of Finished Goods Index

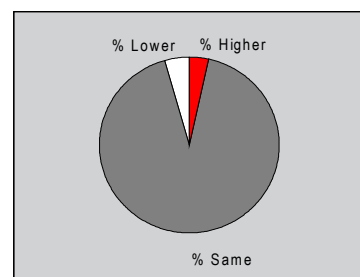
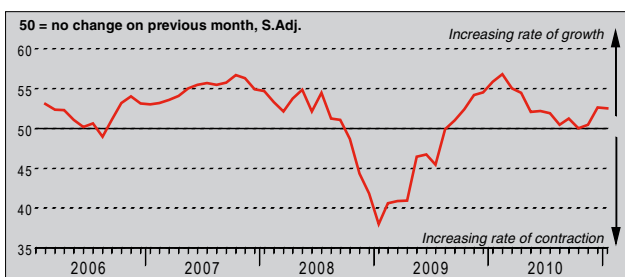
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of finished goods across the Brazilian manufacturing industry were largely unchanged during the latest survey period. This followed two consecutive months of depletion. Where inventories fell, respondents commented on greater-than-expected sales. Meanwhile, increased stocks were linked to faster production growth.

Employment Index

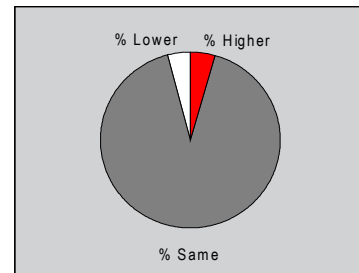
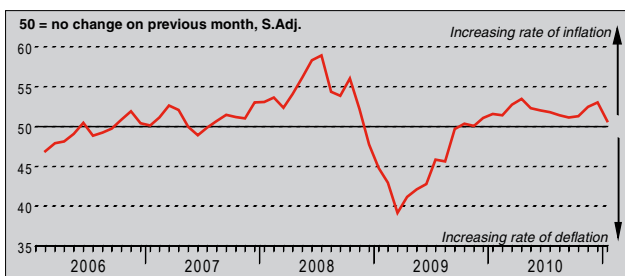
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation in the Brazilian manufacturing sector remained moderate in January as firms took on additional staff to meet greater production requirements. Employment growth was broadly in line with the series' twelve-month average. Companies have now added to payrolls for three months running.

Output Prices Index

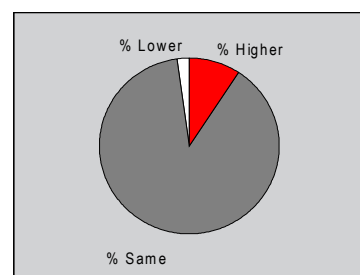
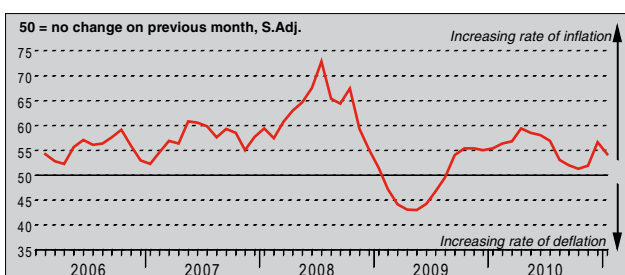
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Reflecting a slowdown in input cost inflation, growth of prices charged for Brazilian manufactures moderated during January. The latest rise in output prices was only slight and the weakest for fourteen months. Where survey participants raised tariffs, higher purchasing costs was the most frequently cited reason.

Input Prices Index

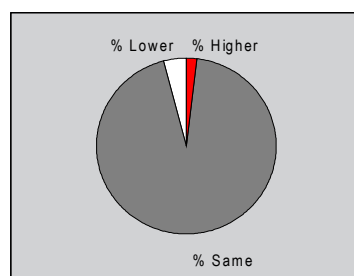
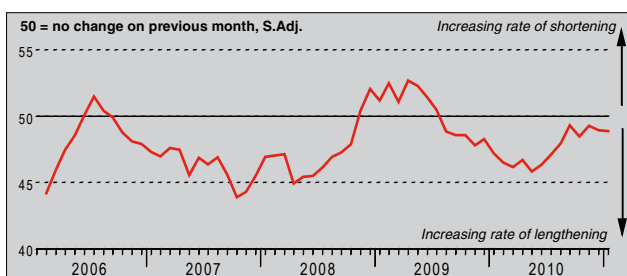
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Higher raw material prices was the principal contributor to input cost inflation across Brazil's manufacturing sector in January. Firms made particular reference to the increased costs of cotton, polyester, stainless steel, glass, gases and food-related items. However, the rate of inflation moderated since December to a robust pace.

Suppliers' Delivery Times Index

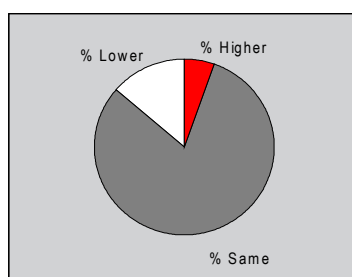
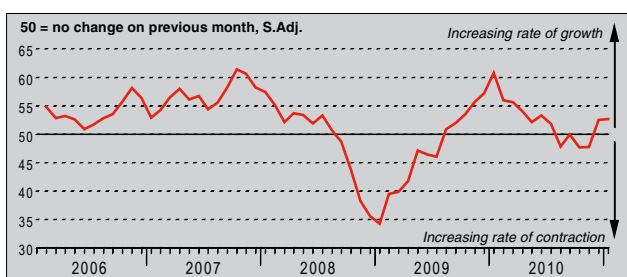
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Unmoved in January, the seasonally adjusted Suppliers' Delivery Times Index signalled another modest deterioration in average vendor performance. Brazilian manufacturers have reported longer lead times continually for a year-and-a-half. Firms reported that poor domestic infrastructure and bad weather had made deliveries difficult.

Quantity of Purchases Index

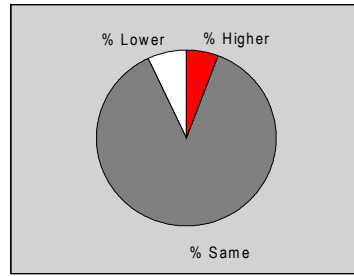
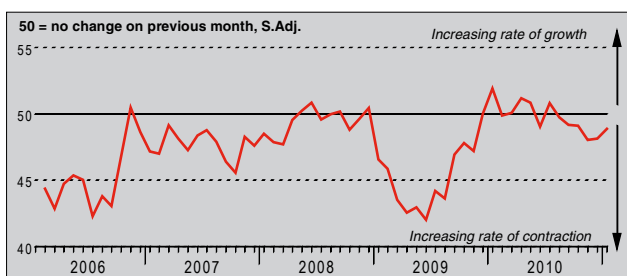
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Partly reflecting greater production requirements and better business conditions, but also strategic purchases to hedge against input price inflation, manufacturers in Brazil raised buying activity in January. Data showed that the moderate rate of increase was the most marked for seven months and above the series trend.

Stocks of Purchases Index

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



Despite further growth of input purchases, pre-production stocks at Brazilian manufacturers continued falling at the start of Q1. That said, the rate of decline slowed since December to the mildest since October. Holdings of raw materials and semi-finished goods in the sector have decreased throughout the past six months.

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.

Warning

The intellectual property rights to the HSBC Brazil Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.