HSBC Purchasing Managers' Index Press™ Release

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

compiled by markit

HSBC Brazil Manufacturing PMI™

PMI signalled strongest improvement in business conditions for nine months

Summary

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.

Comment

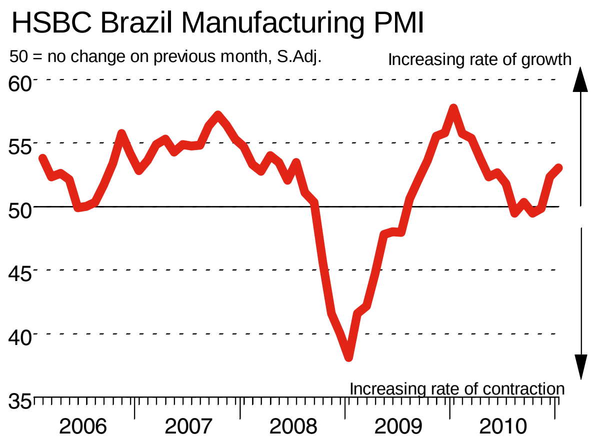
Commenting on the Brazil Manufacturing PMI survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"Economic activity in Brazil's manufacturing sector gained momentum for the second consecutive month in January, after moving sideways for most of H2 2010. The HSBC Brazil Manufacturing PMI rose from 52.4 to 53.1 – the highest level since April of last year – on the back of solid gains in output and new orders. Respondents reported on a better economic environment, and since the stocks of finished goods index does not show an unwanted accumulation of inventories, it seems clear that the increase in manufacturing output is being met by solid demand. The results of the Manufacturing PMI may leave analysts scratching their heads, as economic activity was expected to moderate at the beginning of the year, and suggests that in light of the strength of the economy, the Central Bank will face an uphill battle to contain inflationary pressures and inflationary expectations."

Key points

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

Historical Overview



markit™

HSBC

The world's local bank

For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone +55-11-3371-8184
Email andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email constantin.c.jancso@hsbc.com.br

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5785
Email aseidl@hsbc.com.br

Markit

Gemma Wallace, Economist
Telephone +44-1491-461-075
Email gemma.wallace@markit.com

Caroline Lumley, Markit Press Office
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC Brazil Report on Manufacturing 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.