

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

HSBC Brazil Manufacturing PMI™

Output growth remained strong, but rate of input price inflation quickened to ten-month high.

Key findings:

- New orders increased at a solid pace.
- Job creation weakened to four-month low.
- Factory gate prices rose at fastest pace in twenty-nine months.

Business conditions within the Brazilian manufacturing sector improved at a solid pace in March. This was signalled by 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 – posting 53.2 in March, down from 54.6 in February. The latest reading continued to indicate growth in the manufacturing sector, extending the current period of expansion to four months.

The improvement in operating conditions during March partly reflected further output growth. Production has now risen for the fifth successive month, with the latest increase remaining strong. Panellists attributed the higher levels of output to greater demand for manufactured goods and robust demand in the domestic market.

Subsequently, the amount of new orders received by Brazilian manufacturers increased at a solid pace. However, new order growth was markedly slower than that registered in the previous survey period, while new export orders continued to rise only marginally. A number of monitored companies attributed the weaker growth in new orders to higher output prices. Consequently, some clients postponed their orders during the latest survey period.

Reflective of recent output growth, the amount of finished goods held as stock by surveyed firms rose in March. Although modest, the accumulation was the fastest in five months and contrasted

with the fall registered in February.

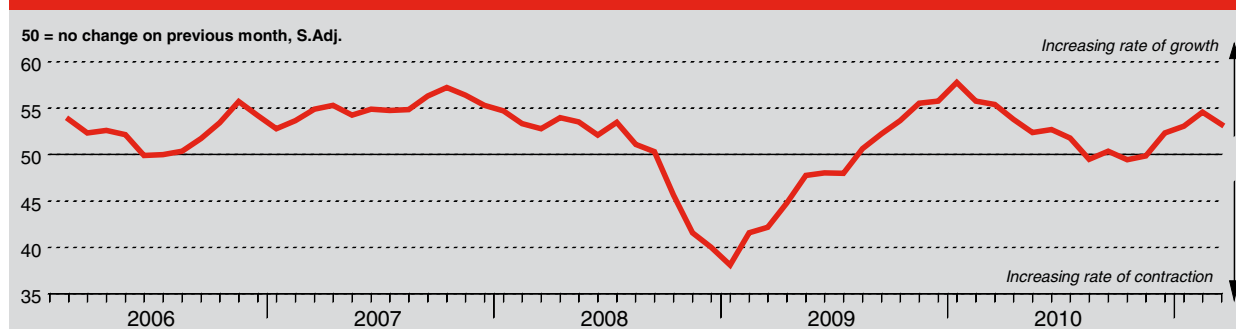
The number of people employed by Brazilian manufacturers increased for the fifth successive month in March. The rate of job creation remained solid, as panellists commented on greater production requirements during the latest survey period. However, a number of firms suggested that recent cost cutting exercises limited employment growth to some extent.

Monitored companies also purchased a larger amount of inputs in March, citing higher production requirements and the need to mitigate against further input price increases. Meanwhile, input stock levels remained broadly unchanged during the latest survey period.

Survey respondents continued to register higher prices across a wide range of goods in March. Transport and raw materials, such as metals and plastics, were particularly highlighted by panellists as increasing in cost. Firms passed part of their greater cost burdens on to clients during the latest survey period. However, the rate of output price inflation remained weaker than that of input costs despite quickening to a twenty-nine month high.

The time it took for suppliers to deliver inputs to surveyed companies increased during the latest survey period. Lead times have now lengthened for twenty successive months, with the latest deterioration the strongest since July 2010. Brazilian manufacturers suggested that vendors struggled to source some raw materials during March.

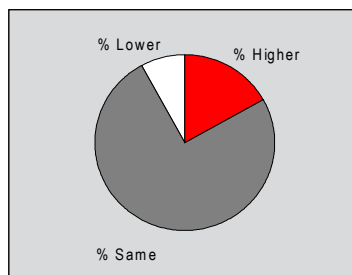
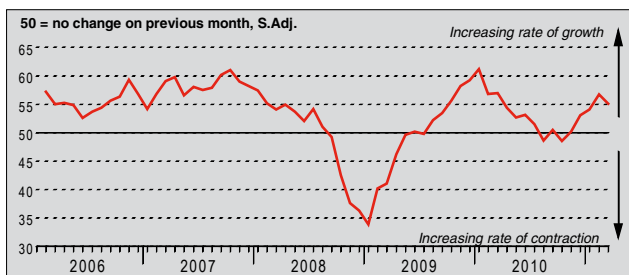
HSBC Brazil Purchasing Managers' Index (PMI)



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

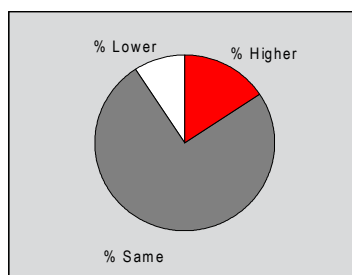
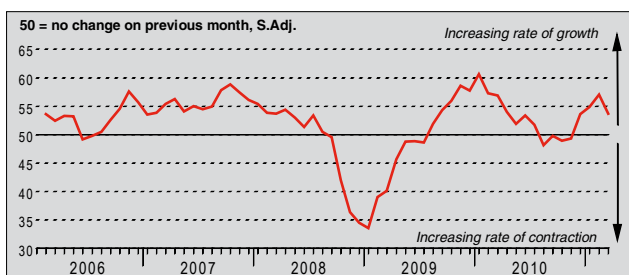
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturers registered a further increase in output during March, extending the current period of expansion to five months. The latest rise in production was strong and remained above the long-run series average. Surveyed companies commented that greater new orders, particularly through solid domestic demand, encouraged greater output during the latest survey period. That said, output growth was slower than the rate recorded in February.

New Orders Index

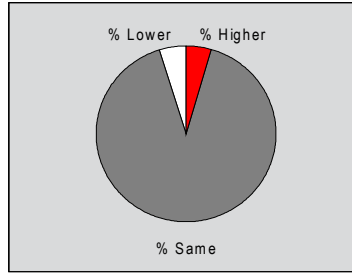
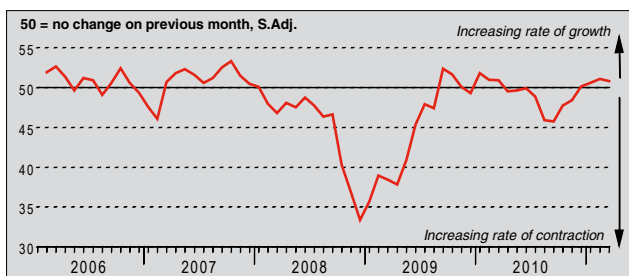
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



The number of new orders received by Brazilian manufacturing firms increased for the fourth successive month in March. However, the rate of growth was the slowest in three months and noticeably weaker than that registered in February. Panellists largely attributed the increase in new order volumes to greater market activity. Nevertheless, a number of survey respondents suggested that recent price increases had deterred some potential clients.

New Export Orders Index

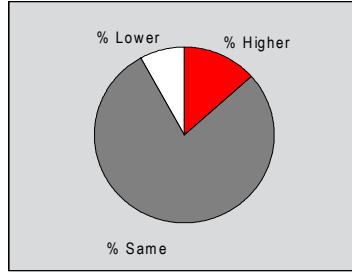
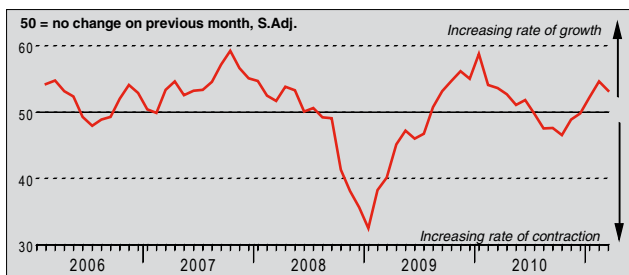
Q. Please compare the level of new export orders received this month with the situation of one month ago.



During March, firms operating within the Brazilian manufacturing sector recorded a higher number of new export orders, as has been the case since December 2010. Although the latest seasonally adjusted New Export Orders Index was the second-highest in the current period of growth, the increase was only marginal. Anecdotal evidence suggested that export orders rose reflective of an improved economic environment.

Backlogs of Work Index

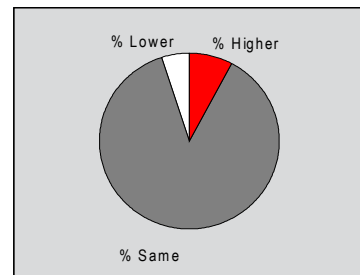
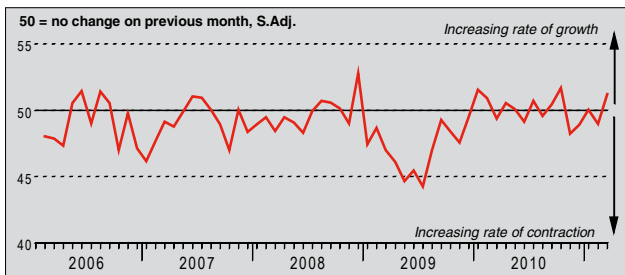
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business registered by monitored companies increased in March. This was signalled by the seasonally adjusted Backlogs of Work Index posting above the 50.0 no-change threshold for the third month running, as over 13% of survey respondents recorded a higher level of work-in-hand compared to the previous month. Panellists attributed the accumulation of incomplete work to larger new order volumes.

Stocks of Finished Goods Index

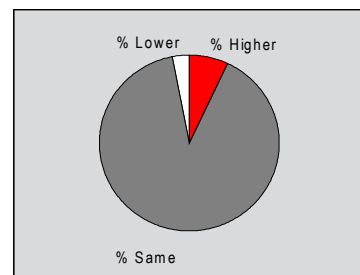
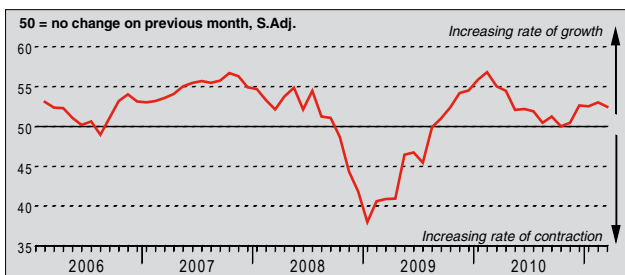
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the decline registered in February, the amount of finished goods held as stock by Brazilian manufacturers increased in March. The rate of accumulation was modest, albeit the fastest in five months. Evidence from the latest survey suggested that firms increased their holdings of post-production goods as output growth was stronger than that of new orders.

Employment Index

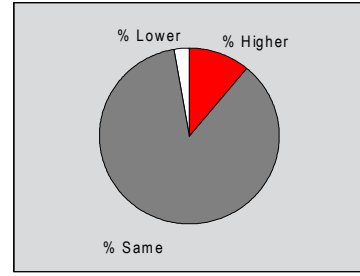
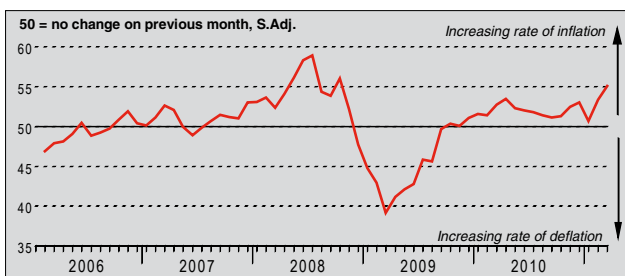
Q. Please compare the level of employment at your unit with the situation one month ago.



The employment level within the Brazilian manufacturing sector rose for the fifth consecutive month in March. The rate of job creation remained solid, despite easing to a four-month low, as surveyed companies reported greater production requirements during the latest survey period. Nonetheless, a number of respondents indicated recent cost cutting exercises limited employment growth to some extent.

Output Prices Index

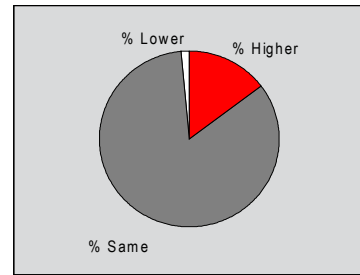
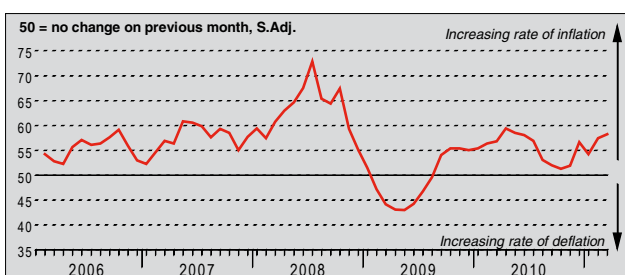
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The average price charged by Brazilian manufacturers increased at a strong rate during March. Output price inflation has now been recorded in each survey period since October 2009, with the latest rise the strongest in twenty-nine months. A number of panellists commented that they had passed greater cost burdens, particularly from higher raw material prices, on to clients. Nevertheless, the rate of output price inflation remained slower than that of input costs.

Input Prices Index

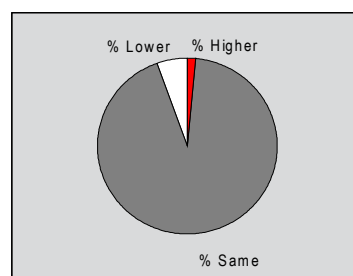
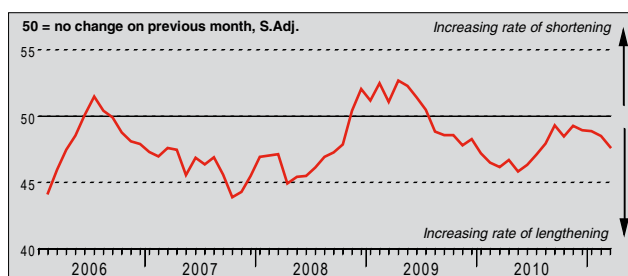
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Surveyed firms recorded a further rise in cost burdens during March. Moreover, the rate of input price inflation strengthened to a ten-month high. Higher prices were recorded across a wide range of inputs, but panellists particularly commented on transportation and raw materials, such as steel and plastics, as increasing in cost during the latest survey period.

Suppliers' Delivery Times Index

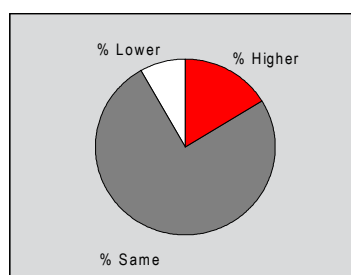
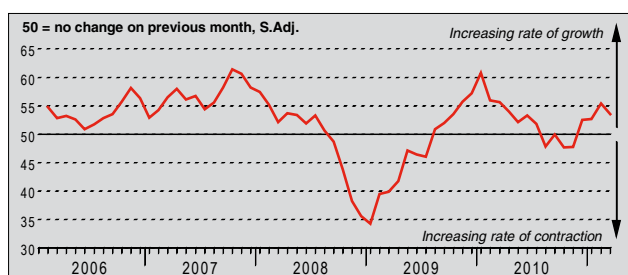
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the twentieth month running in March. Moreover, the latest seasonally adjusted index reading suggested that lead times increased at the fastest pace since July 2010. Panellists attributed the deterioration in vendors' performance to transportation problems, and suggested that suppliers experienced difficulty in sourcing some raw materials during March.

Quantity of Purchases Index

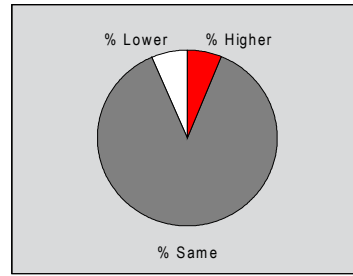
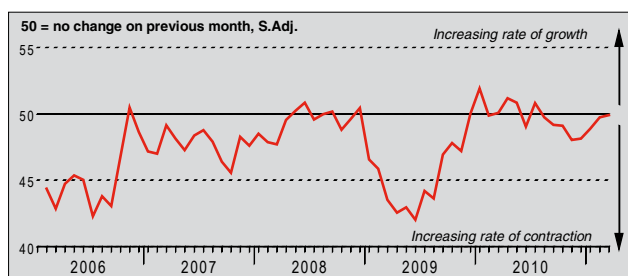
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Panellists purchased a greater number of pre-production materials in March. Growth in purchasing activity has now been recorded for the fourth successive month, with the latest rise the second-strongest in the current period of expansion. Firms purchased a larger number of inputs during the latest survey period primarily as a result of higher production requirements.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index posted fractionally below the 50.0 level in March and indicated broadly no change in the stock levels of inputs. Anecdotal evidence suggested that greater production requirements had placed downward pressures on stocks in March, although this had been offset by higher purchasing activity.

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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