

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

## HSBC Brazil Manufacturing PMI™

PMI signalled only slight expansion in Brazilian manufacturing sector as new orders fell for second consecutive month.

### Key findings:

- Volume of new orders decreased only marginally in May.
- Job creation at seven-month low.
- Output growth remained modest.

Business conditions in the Brazilian manufacturing sector improved only marginally in May. This was signalled by the headline seasonally adjusted HSBC Brazil Manufacturing Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing sector – posting only slightly above the 50.0 no-change threshold during the latest survey period. At 50.8, broadly unchanged from 50.7 registered in April, the overall rate of expansion within the sector remained below the long-run series average.

The overall improvement in operating conditions largely reflected further output growth. Brazilian manufacturers have reported higher production levels for seven consecutive months, with a number of firms attributing this to greater market activity. Although the rate of growth was stronger than that recorded in April, it remained below the average for the series.

New work intakes fell for the second month running during the latest survey period. Panellists commented that they lost some clients due to strong competitive pressures and higher output prices. That said, the latest decrease in new business was only marginal. The rate of contraction in new export orders, however, was the fastest in six months.

Reflective of output growth and lower new order volumes, Brazilian manufacturing companies were able to complete some outstanding business in May. Meanwhile, stocks of finished

goods were accumulated during the latest survey period.

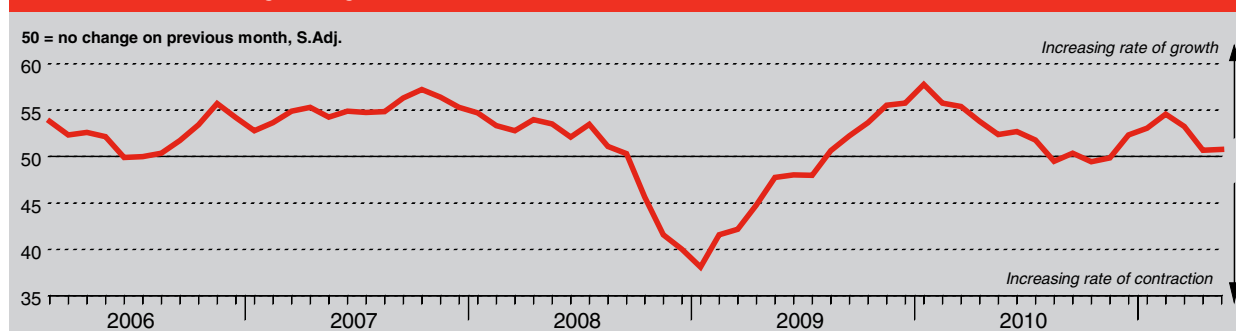
Employment in the Brazilian manufacturing sector increased during May. This extended the current period of job creation to seven months. Anecdotal evidence indicated that firms enlarged their workforces in light of greater production requirements. Nevertheless, employment growth was only marginal and the weakest in the current sequence.

Monitored companies increased their purchases and accumulated stocks of inputs during May. This was in contrast to the slight decreases registered in April. A number of panellists commented that purchasing activity rose in an attempt to mitigate against further suppliers' delivery delays and higher input costs.

In May, the time it took for suppliers to deliver inputs lengthened for the twenty-second consecutive month. However, the latest increase in lead times was the least substantial since last November.

Continuing the trend that began in September 2009, input prices faced by Brazilian manufacturing companies increased in May. The rate of input cost inflation remained strong, despite being at a four-month low, with panellists reporting higher prices across a wide range of goods. Steel and oil-related products were particularly mentioned. Meanwhile, panellists successfully passed some of their greater cost burdens on to clients in May. Nevertheless, the latest rise was weaker than that recorded in April and slower than the increase in input costs.

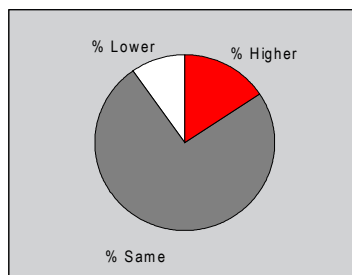
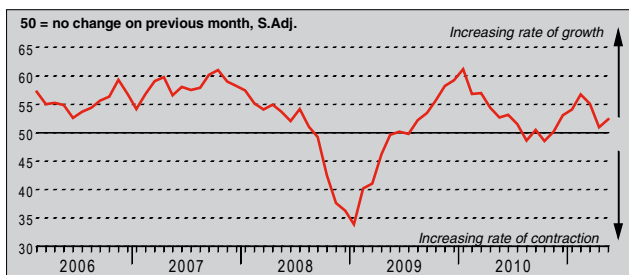
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Output Index

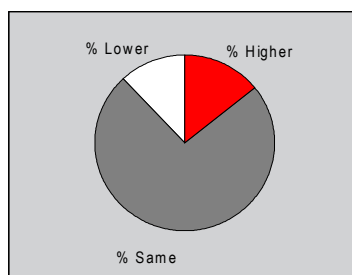
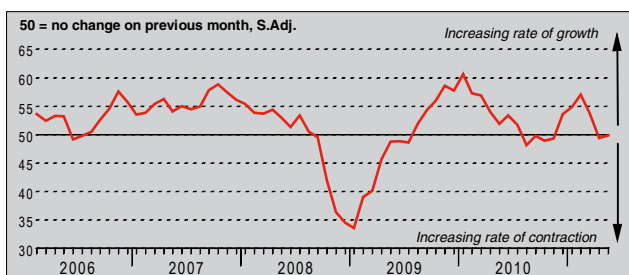
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturing companies registered a further rise in output levels during May, as has been the case since November 2010. Almost 16% of survey respondents reported higher production levels during the latest survey period, with greater market activity largely commented upon. Subsequently, the rate of output growth strengthened since April, but nonetheless remained weaker than the long-run series average.

### New Orders Index

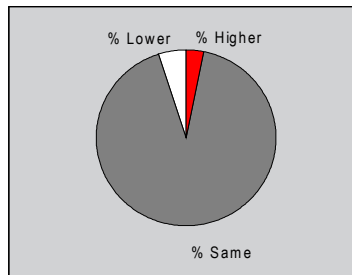
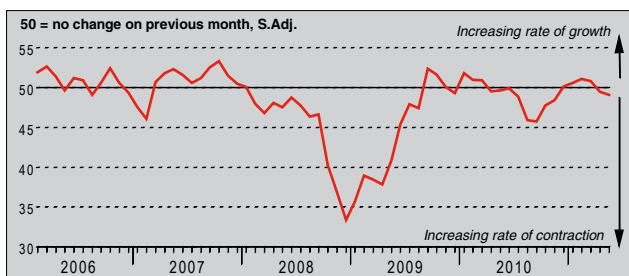
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Following the trend that was recorded previously, the amount of new orders received by Brazilian manufacturers decreased in May. However, the latest fall was only marginal, as signalled by the seasonally adjusted New Orders Index posting fractionally below the 50.0 no-change level. Panellists commented that they lost some clients as strong competitive pressures continued. Moreover, a number of respondents suggested that higher output prices, reflective of greater cost burdens, dissuaded some clients from placing new orders in May.

### New Export Orders Index

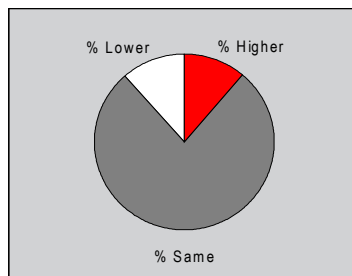
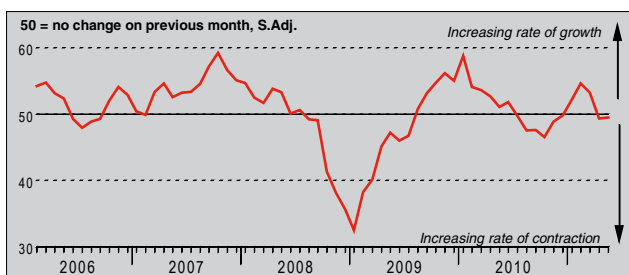
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturing companies operating in Brazil recorded a fall in the number of new export orders received during May. New work intakes that originated from abroad have now decreased for the second successive month, with the latest rate of contraction the fastest in six months. Evidence from the latest survey attributed the lower level of new export orders to strong competitive pressures.

### Backlogs of Work Index

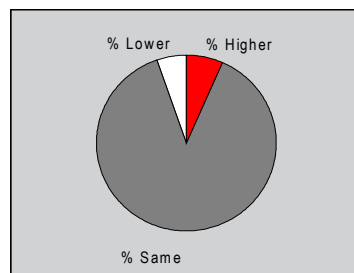
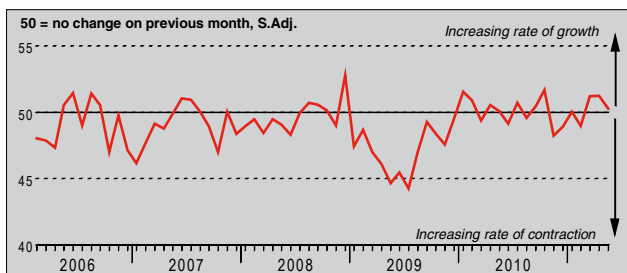
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Reflective of output growth and a fall in new work intakes, surveyed firms signalled that the amount of outstanding business decreased in May. This was indicated by the seasonally adjusted Backlogs of Work Index posting below the 50.0 no-change threshold during the latest survey period. The latest index reading was broadly similar to that recorded in April, and remained below the long-run series average.

### Stocks of Finished Goods Index

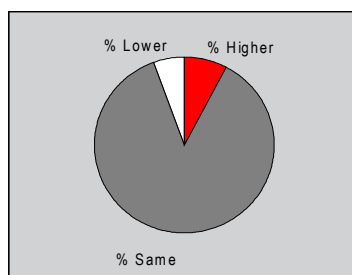
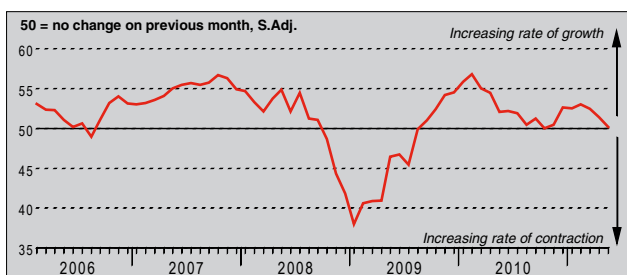
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Latest data suggested that stocks of finished goods increased for the third consecutive month in May. Anecdotal evidence indicated that further output growth, coupled with a fall in new order requirements, resulted in stock accumulation during the latest survey period. However, a number of panellists reduced their holdings of finished goods as new stock policies were introduced. Consequently, the overall rate of stock accumulation was marginal and the weakest since February.

### Employment Index

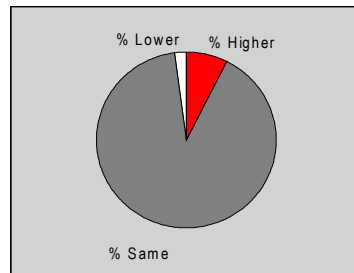
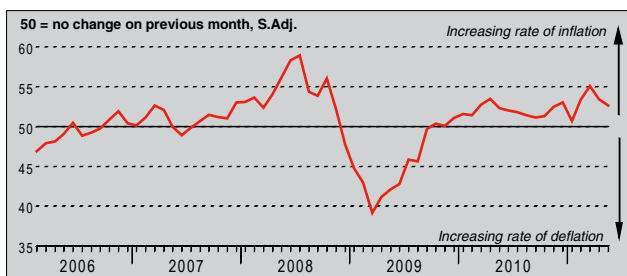
Q. Please compare the level of employment at your unit with the situation one month ago.



Brazilian manufacturers hired a larger number of new employees in May, extending the current period of job creation to seven months. Monitored companies attributed the latest increase in staff headcounts to greater production requirements during the latest survey period. However, employment growth slowed further from the ten-month high recorded in February to the weakest since October 2010, as new order intakes fell during May.

### Output Prices Index

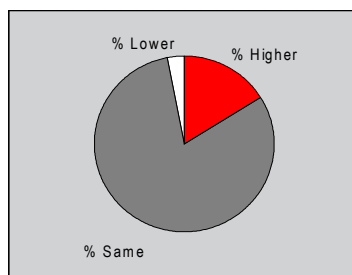
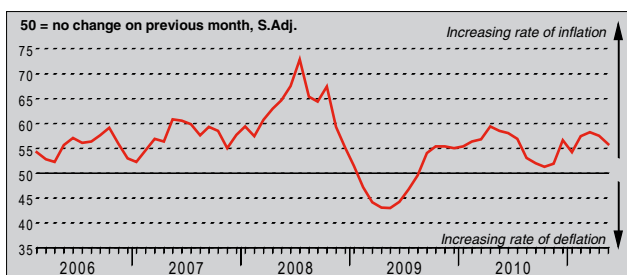
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The average price charged by Brazilian manufacturing companies increased solidly in May. Survey respondents successfully passed some of their greater cost burdens, reflective of a strong rate of input cost inflation, on to clients by raising their output prices during the latest survey period. Although the latest increase in output prices remained solid and above the long-run series average, it was at the slowest pace since January.

### Input Prices Index

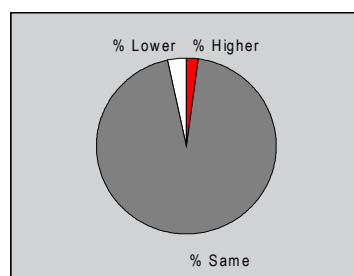
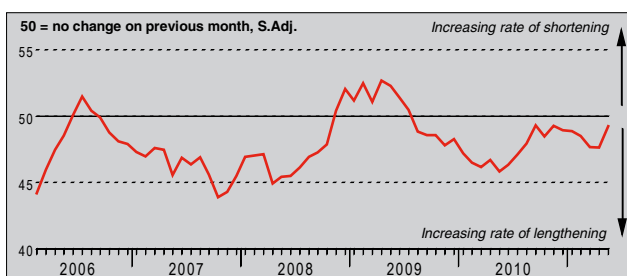
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by surveyed firms in the Brazilian manufacturing sector rose strongly in May. Higher input prices have been recorded since September 2009. Panellists reported a wide range of goods increased in price during the latest survey period, with steel and oil-related products particularly mentioned. That said, the rate of input cost inflation weakened since the previous survey period and fell below the long-run average for the series.

## Suppliers' Delivery Times Index

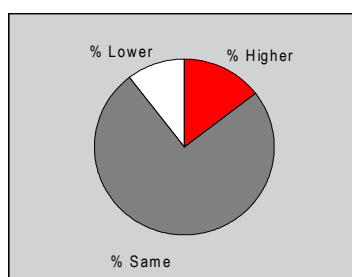
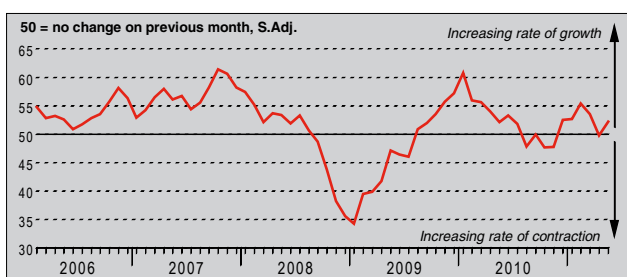
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Panelists reported a further lengthening in vendors' lead times during May, as has been the case since August 2009. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index continuing to post below the 50.0 level that separates faster and slower delivery times. In contrast to the solid deterioration of vendor performance recorded during April, the latest increase in delivery times was only modest and the weakest since last November.

## Quantity of Purchases Index

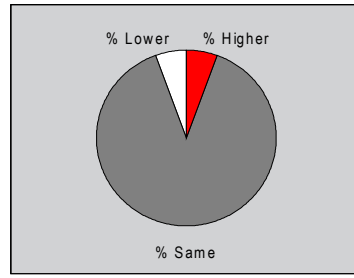
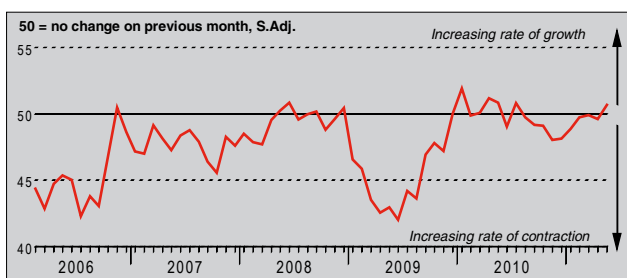
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs purchased by Brazilian manufacturers increased in May. This was in contrast to the marginal decrease registered in the previous survey period. Panelists bought a greater number of inputs as production requirements rose during May. Moreover, a number of surveyed firms commented that they increased their purchasing activity in an attempt to mitigate against higher input price rises and further supplier delays.

## Stocks of Purchases Index

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



Brazilian manufacturing companies reported that stocks of purchases increased during May. This ended a nine-month period of stock depletion. The rate of accumulation was modest, but greater than the long-run series average. Anecdotal evidence indicated that stocks of purchases rose as panelists anticipated further delivery delays and input price inflation.

## 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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