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HSBC Brazil Manufacturing PMI™

PMI signalled overall deterioration in business conditions in June.

Key findings:

- PMI below the 50.0 no-change level, at lowest since July 2009.
- Both output and new orders decreased in June.
- Falling employment recorded for first time in nearly two years.

June data from the HSBC Brazil Manufacturing PMI™ report signalled a deterioration in the sector's business conditions. Both production and new orders fell during the latest survey period, as firms commented on weaker markets and intensifying competitive pressures. Subsequently, overall job losses were recorded in the Brazilian manufacturing sector, albeit at only a marginal pace.

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 – posted below the 50.0 no-change level that separates growth from contraction in June. At 49.0, down from 50.8 in May, the deterioration was only modest, but the index reading fell, nonetheless, to a near two-year low.

Brazilian manufacturers reported a lower level of production in June, subsequently ending the period of output growth that began last November. Anecdotal evidence attributed the decline to sluggish markets and a further fall in new work intakes.

The amount of new orders received by monitored companies fell for the third month running during the latest survey period. The rate of decline quickened since May to the fastest since April 2009. Notably, firms received less new business from both the domestic and international markets in June.

Reflective of the declines in output and new order volumes, the amount of work-in-hand at surveyed firms decreased in June. Meanwhile, respondents reported a marginal accumulation of stocks of finished goods during the latest survey period.

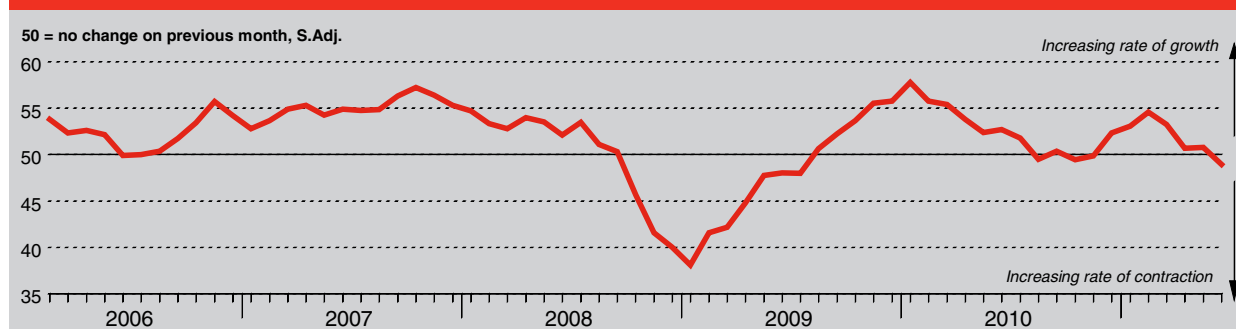
The amount of inputs purchased by Brazilian manufacturing companies decreased during the latest survey period, with panellists commenting on lower production requirements. Similarly, input inventories were also depleted. That said, suppliers' delivery times lengthened further – and to a greater extent than that registered in May.

Employment in the Brazilian manufacturing sector decreased for the first time since August 2009 during June. However, the rate of job losses was only slight.

Monitored companies raised their prices charged for the twenty-first consecutive month in June, as firms passed parts of their cost burdens onto clients. Nevertheless, the increase was the slowest since November 2009, as strong competitive pressures limited many firms from raising charges.

The rate of output price inflation remained slower than that of input costs. Overall cost burdens grew strongly in June, but at a pace weaker than the long-run series average. Panellists reported that a wide range of goods rose in price during the latest survey period, with steel particularly mentioned by a number of respondents.

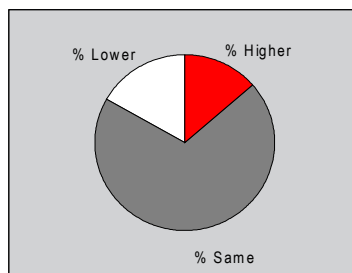
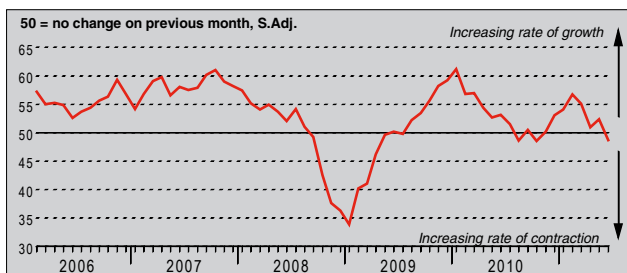
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

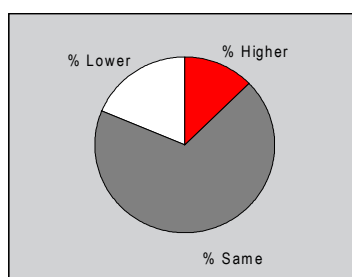
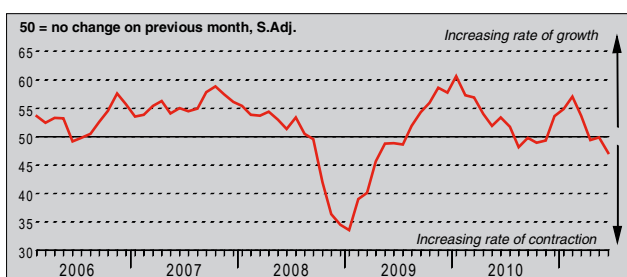
Q. Please compare your production/output this month with the situation one month ago.



Production at Brazilian manufacturing companies fell during June, ending a period of output growth that started in November 2010. Almost 17% of survey respondents reported a lower level of output compared to that registered in May, and largely attributed declines to falls in sales and sluggish markets. Nevertheless, the overall contraction was only modest.

New Orders Index

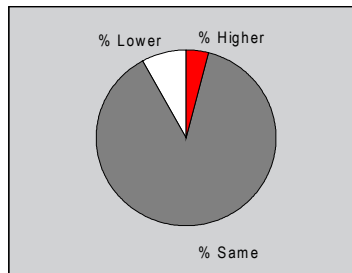
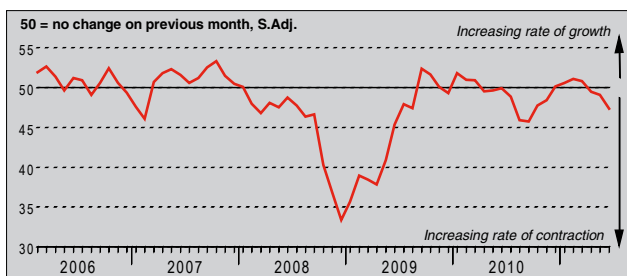
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



The amount of new orders received by monitored companies operating in Brazil's manufacturing sector decreased for the third consecutive month in June. The latest fall in new work intakes was the fastest in over two years. Panellists commented that market conditions weakened during the latest survey period. Moreover, a number of survey respondents suggested that competitive pressures from foreign-produced goods had increased in June.

New Export Orders Index

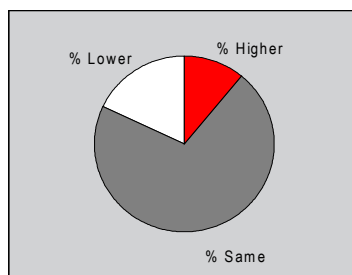
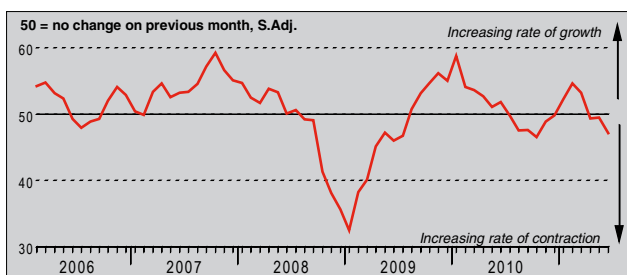
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Following the trend that has been recorded since April, the volume of new export orders received by Brazilian manufacturers decreased in June. Notably, the rate of decline quickened since the previous survey period, to the fastest in nine months. Respondents that registered a lower level of new export business in June often attributed this to weak global demand.

Backlogs of Work Index

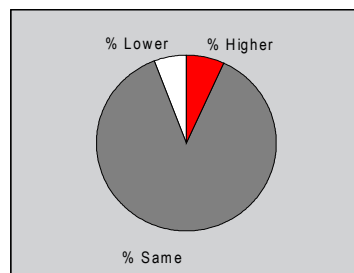
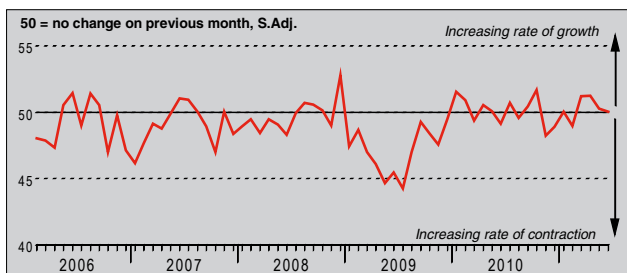
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work were depleted for the third month running in June. Exactly 18% of panellists reported a lower level of outstanding business, compared to the 11% that registered an increase. Firms suggested this reflected lower levels of new orders and production. Moreover, the rate of decrease strengthened since the previous survey period to an eight-month high.

Stocks of Finished Goods Index

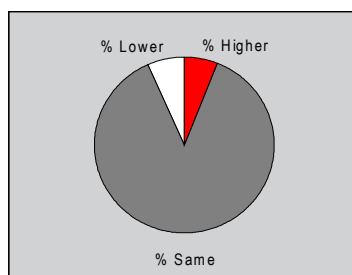
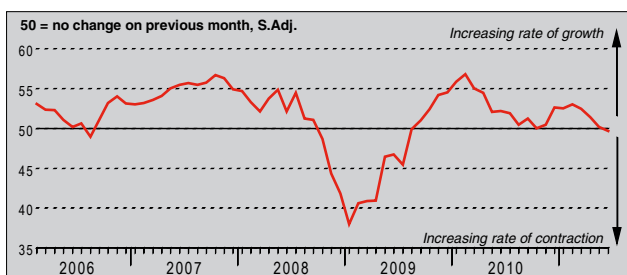
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In June, the seasonally adjusted Stocks of Finished Goods Index posted above the 50.0 no-change level that separates stock accumulation from depletion. This signalled a further rise in the level of post-production goods at Brazilian manufacturers. Nevertheless, the latest index reading was only fractionally above the no-change threshold and suggested that the increase was marginal.

Employment Index

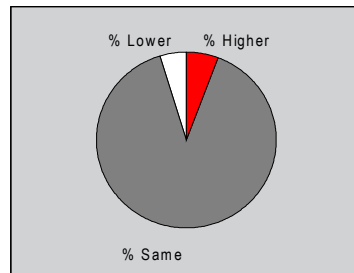
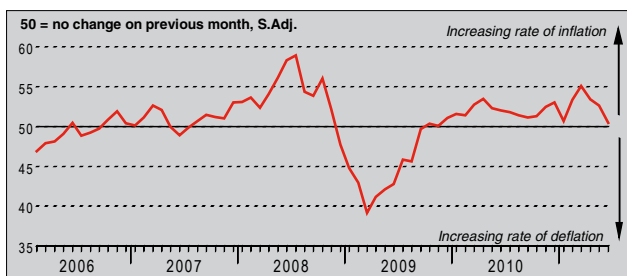
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Brazilian manufacturing sector fell for the first time in twenty-two months during June. Although the rate of job losses was only marginal, it was nonetheless the fastest since July 2009. Monitored companies commented that they reduced their workforces slightly as production requirements fell during the latest survey period.

Output Prices Index

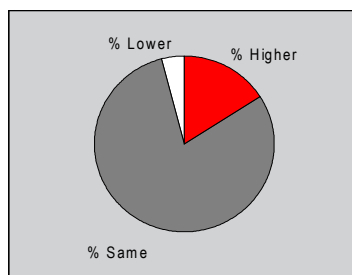
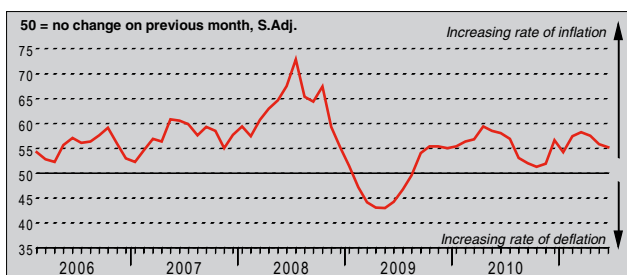
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The average price charged by Brazilian manufacturers increased further in June. Higher factory gate prices have now been recorded in each survey period since October 2009. Evidence from the latest survey indicated that firms raised their prices charged as they passed parts of their greater cost burdens on to clients. However, the latest increase was limited by strong competitive pressures in June. The rate of output price inflation slowed sharply since May, to a nineteen-month low.

Input Prices Index

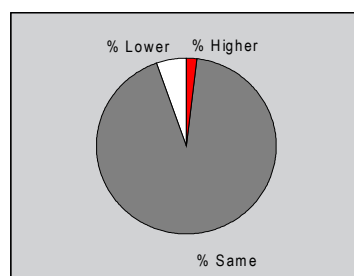
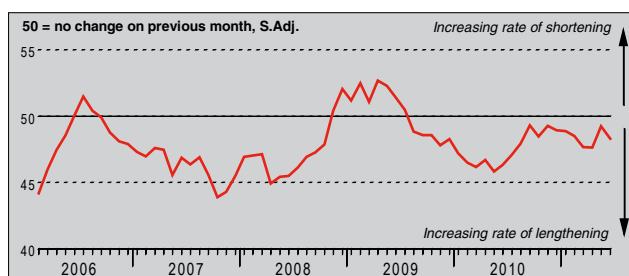
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Brazilian manufacturing companies reported greater cost burdens in June, continuing the trend that began in September 2009. The rate of input price inflation remained strong, despite easing since May and remaining below the long-run series average. Panellists registered higher input prices across a wide range of goods, with a number of surveyed firms particularly mentioning steel as increasing in cost.

Suppliers' Delivery Times Index

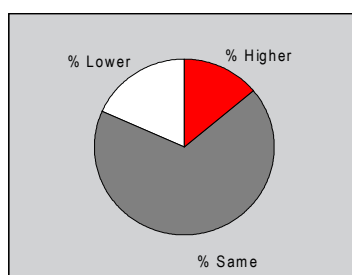
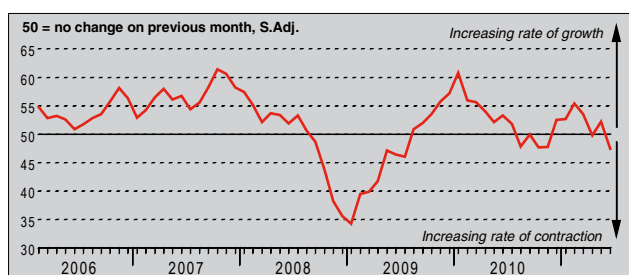
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



In June, the seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change threshold. This indicated that lead times lengthened for the twenty-third consecutive month during the latest survey period. June's index reading remained above the long-run series average, despite being lower than that registered in May.

Quantity of Purchases Index

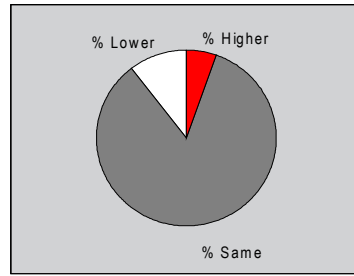
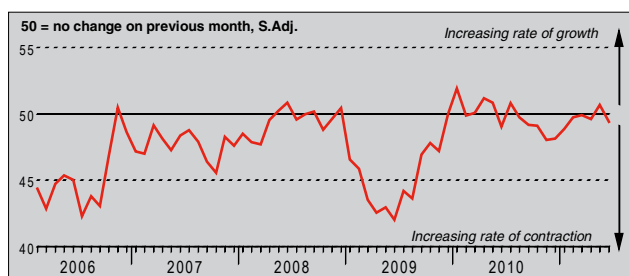
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs purchased by Brazilian manufacturers fell during June, in contrast to the increase registered in the previous survey period. The rate of decline was the fastest since July 2009, with over 18% of respondents reducing their purchasing activity. Evidence from the latest survey suggested that firms bought less inputs in light of declining production.

Stocks of Purchases Index

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



As well as reducing their purchasing activity, firms depleted their holdings of pre-production goods. This was signalled by the seasonally adjusted Stocks of Purchases Index posting below the 50.0 no-change level in June. The latest reading suggested that inventory levels fell modestly, reversing some of the accumulation registered in May.

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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