

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

HSBC Brazil Manufacturing PMI™

PMI signals worst deterioration in overall business conditions since May 2009

Key findings:

- PMI posted below the 50.0 mark for the second consecutive month
- Output fell at the sharpest rate in 27 months
- Rate of input price inflation eased further from March's peak

Business conditions in Brazil's manufacturing sector deteriorated further in July. Output fell strongly as the volume of new orders decreased at the fastest pace since April 2009. Employment also declined, but job losses were only slight. Meanwhile, inflationary pressures continued to ease, with input price inflation at an eight-month low during the latest survey period.

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 – registered 47.8 in July, down from 49.0 in June, the lowest reading in 26 months. The PMI indicated that the Brazilian manufacturing sector contracted further during the latest survey period and largely reflected lower levels of output, new orders and employment.

Brazilian manufacturers received a lower volume of new business during July. Notably, the rate of decline quickened since June to the fastest in 27 months. Panellists generally linked the reduction in new work intakes to weaker global demand and fragile market conditions. Moreover, a number of firms also suggested that unfavourable exchange rates contributed to a decline in new export orders during the latest survey period.

Subsequently, Brazilian manufacturing companies lowered

production for the second consecutive month in July. The rate of contraction was strong, and the fastest since April 2009.

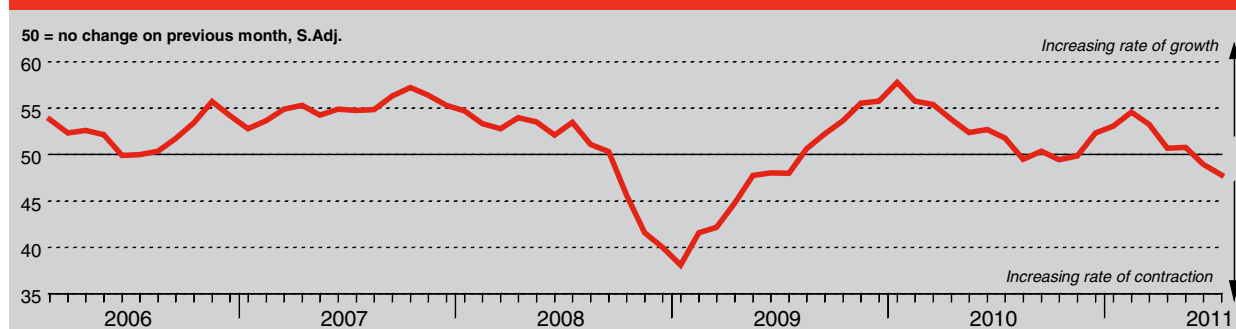
The amount of work-in-hand fell during the latest survey period, with the rate of decrease strengthening since June. That said, stocks of finished goods increased for the fifth month running. The rate of inventory accumulation was moderate and above the long-run series average.

Reflective of the fall in output, monitored companies ordered fewer inputs in July. Firms also depleted their stocks of purchases. Nevertheless, suppliers' delivery times lengthened further compared with the previous survey period. The deterioration in vendor performance continued the trend that has been recorded since August 2009.

Employment in Brazil's manufacturing sector fell for the second consecutive month in July. Despite being the fastest in two years, the rate of job losses was only slight overall.

On the inflation front, input prices recorded by surveyed companies rose at the weakest pace in eight months during July. Respondents continued to pass on part of their greater cost burdens to clients during the latest survey period, but the rise in output charges remained weaker than that of input prices.

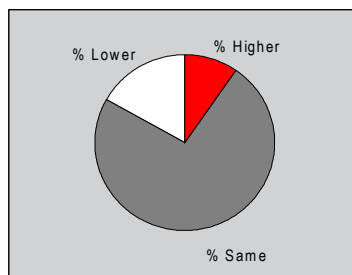
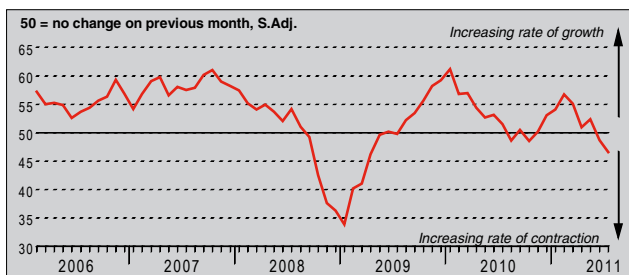
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

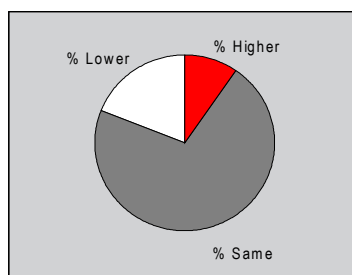
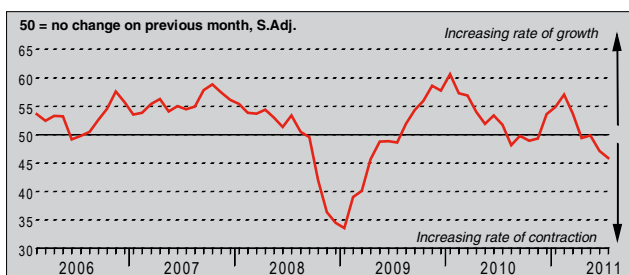
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturers reported a lower level of output for the second month running in July. Moreover, the rate of decline strengthened to the fastest in 27 months, with almost 17% of respondents reducing production during the latest survey period. Anecdotal evidence largely linked the fall in output to weaker market conditions and lower client demand.

New Orders Index

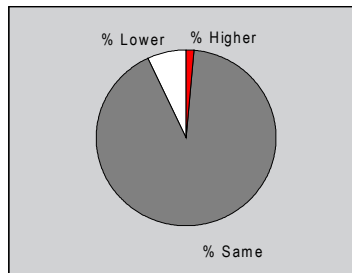
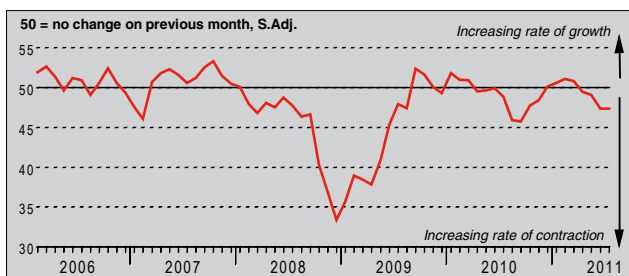
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Continuing the trend that has been registered since April, the volume of new work received by monitored companies fell during July. Approximately 19% of panellists recorded a lower level of new orders, compared to the 10% that reported an increase, and generally commented that market conditions had deteriorated further during the latest survey period. Noticeably, the rate of contraction was the strongest since April 2009.

New Export Orders Index

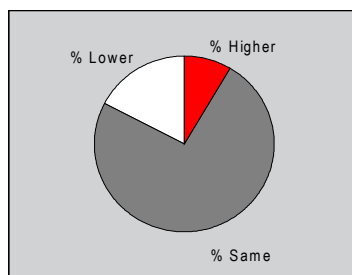
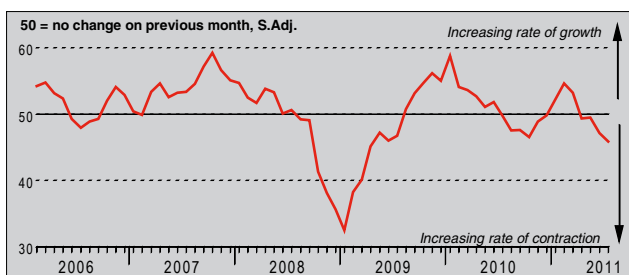
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted below the 50.0 no-change threshold for the fourth consecutive month in July. The latest reading was unchanged from that recorded in June, yet continued to indicate a solid fall in the amount of new work that originated from abroad. A number of surveyed firms suggested that unfavourable exchange rates had made Brazilian manufactured goods uncompetitive in July.

Backlogs of Work Index

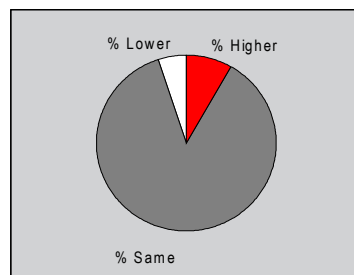
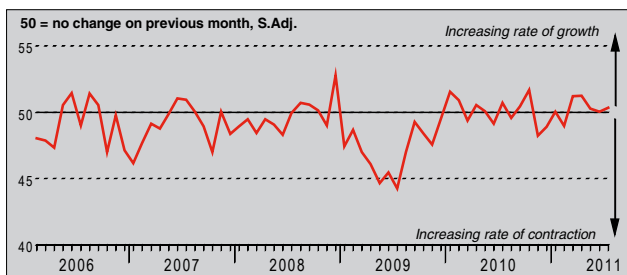
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Brazilian manufacturing companies decreased for the fourth successive month in July. Moreover, the rate of depletion quickened since June to the fastest in 27 months. Over 17% of firms reported a fall in the level of backlogs, and attributed declines to stronger contractions in output and new orders.

Stocks of Finished Goods Index

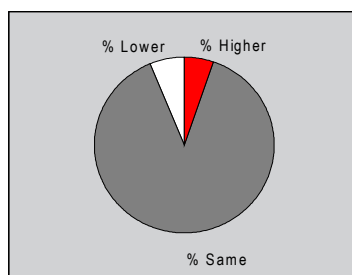
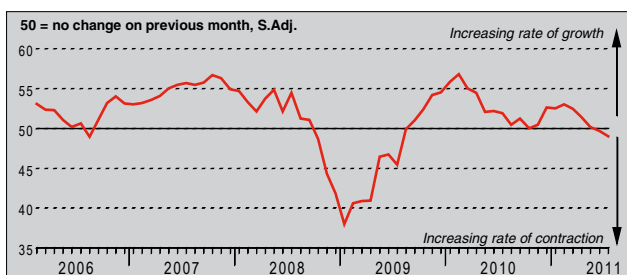
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods increased for the fifth successive month in July. This was signalled by the seasonally adjusted Stocks of Finished Goods Index posting above the 50.0 no-change level that separates stock accumulation from depletion. The latest rise in inventory levels was modest, and above the long-run series average.

Employment Index

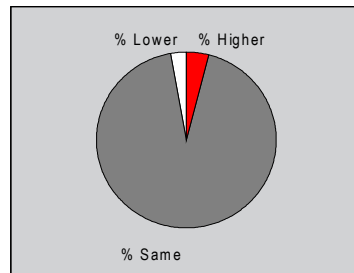
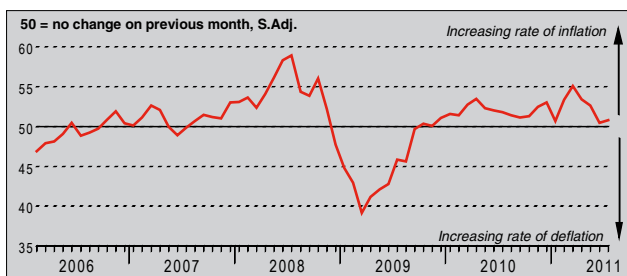
Q. Please compare the level of employment at your unit with the situation one month ago.



Reflective of the falls in both new order volumes and production levels, Brazilian manufacturing firms reduced their workforces for the second month running in July. This was indicated by the seasonally adjusted Employment Index registering below the 50.0 no-change mark that separates job creation from job losses. Despite the index being at a two-year low in July, the fall in staff headcounts was only moderate.

Output Prices Index

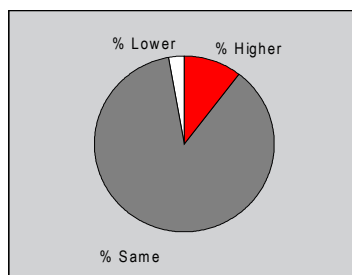
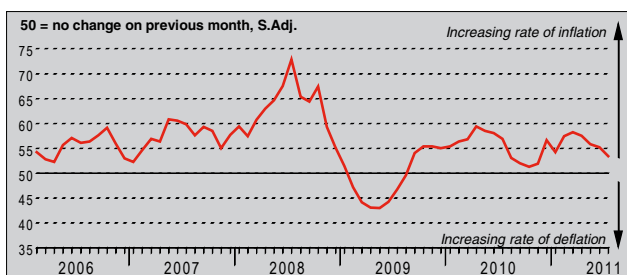
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output charges rose further in July, extending the current period of inflation to 22 months. Monitored companies commented that factory gate prices were partly raised in order to pass on greater cost burdens to clients. Nevertheless, the price increase was only modest overall, as a number of respondents reported stronger competitive pressures during the latest survey period.

Input Prices Index

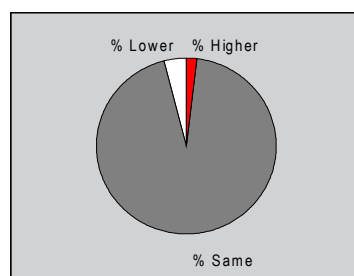
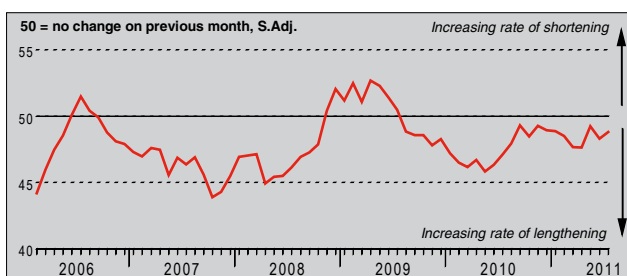
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices recorded by Brazilian manufacturing companies increased in July, as has been the case since September 2009. Over 10% of firms registered greater cost burdens, with steel and oil-related products particularly mentioned as having risen in price. The rate of input cost inflation eased further from March's peak, however, to an eight-month low.

Suppliers' Delivery Times Index

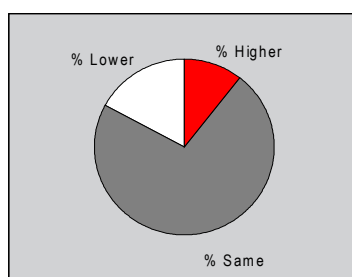
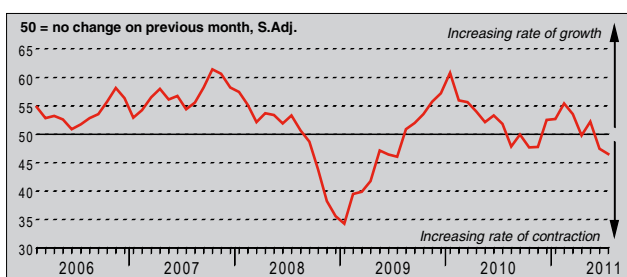
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index registered below the 50.0 no-change level in July and signalled a further deterioration in vendor performance. Longer delivery times have now been recorded in each survey period since August 2009. That said, the latest increase in lead times was only moderate. The index was above the long-run series average (48.0).

Quantity of Purchases Index

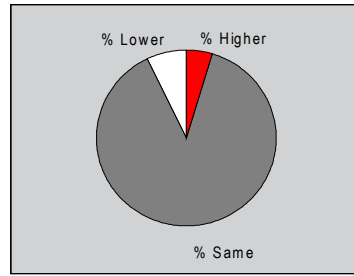
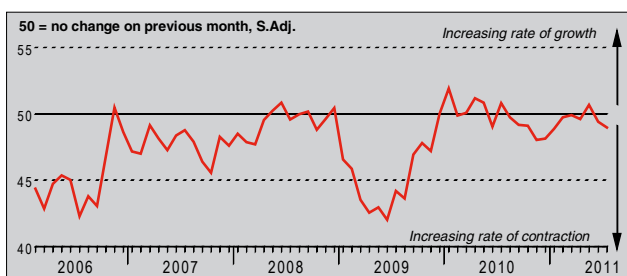
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs bought by survey respondents decreased in July. Purchasing activity fell solidly, and at the fastest rate since July 2009. Around 17% of panellists purchased less inputs during the latest survey period, compared to 11% that bought greater amounts. Declines were generally linked to smaller production requirements in July.

Stocks of Purchases Index

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



Following the trend that was registered in June, input inventories at Brazilian manufacturers fell further in July. The latest fall was only slight, but nonetheless the strongest in six months. A number of monitored companies commented that stocks were depleted in response to weaker market conditions and recent falls in new order volumes.

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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