HSBC *Purchasing Managers' Index*™ 2011

compiled by markit

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HSBC Brazil Manufacturing PMI™

Manufacturing business conditions deteriorate at fastest pace since April 2009

Key findings:

- PMI registers below the 50.0 no-change threshold for third month running
- New order volumes fall further as global demand weakens
- Rate of job losses strongest in 25 months

The contraction in the Brazilian manufacturing sector deepened further according to August's HSBC Brazil Manufacturing *PMI™* data. Production declined at the fastest rate since March 2009, while the volume of new work intakes fell for the fifth successive month. Both reflected weaker client demand in August. Subsequently, the rate of job losses strengthened and supply side pressures, including both suppliers' delivery delays and input price inflation, eased.

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 46.0 in August, down from 47.8 in July, and was the lowest reading in 28 months. The headline index has now registered below the 50.0 no-change threshold that separates growth from contraction for three consecutive months.

Brazilian manufacturers reduced their output further in August, with the rate of decline strengthening to the fastest in 29 months. Anecdotal evidence linked the latest fall in production to deteriorating market conditions and lower client demand. Subsequently, incoming new work at monitored companies decreased during the latest survey period, with almost one-fifth of respondents reporting lower new order volumes.

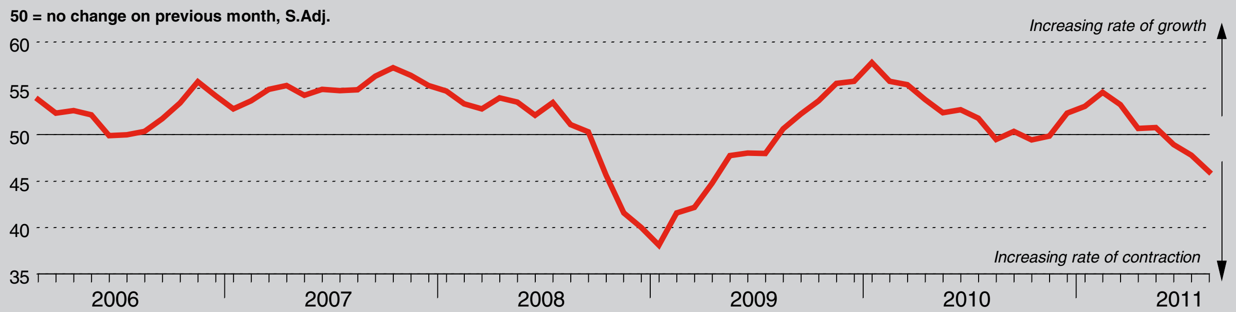
Reflective of the declines in production and new orders, companies operating in Brazil's manufacturing sector reduced outstanding work in August. Backlogs were depleted at a rate faster than that registered in July. Meanwhile, stocks of finished goods increased only fractionally during the latest survey period.

The amount of inputs bought by surveyed firms decreased for the third consecutive month in August, with respondents attributing this to lower production requirements. Input inventories also fell for the third month running. Consequently, suppliers' delivery times quickened, ending the period of lengthening that started in August 2009. Panellists suggested that vendor performance had also improved as they were better positioned to supply raw materials.

Employment in the Brazilian manufacturing sector decreased further during the latest survey period. The rate of job losses was the fastest in 25 months, with around 10% of firms reducing their staffing levels since July.

Input costs faced by Brazilian manufacturers increased further in August. The rate of input price inflation was only modest, however, and below the long-run series average. Monitored companies passed on greater cost burdens to clients by raising their factory gate prices during the latest survey period. The increase in output prices was the strongest in three months, but remained weaker than the overall rise 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.

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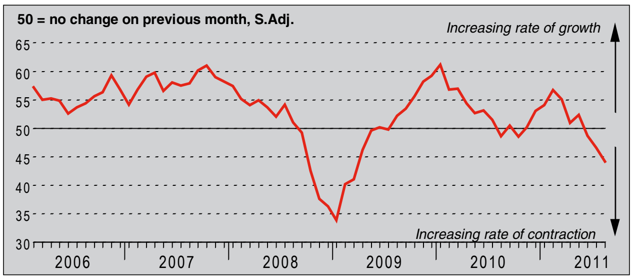
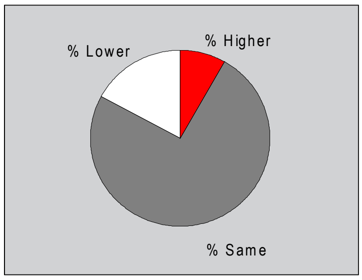
Output Index

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

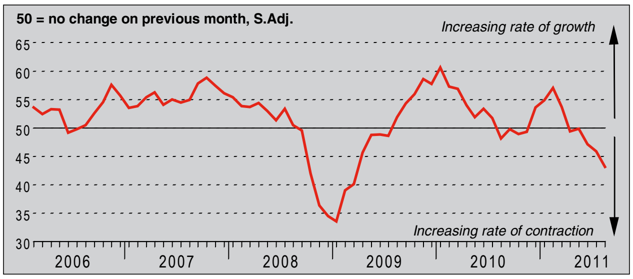


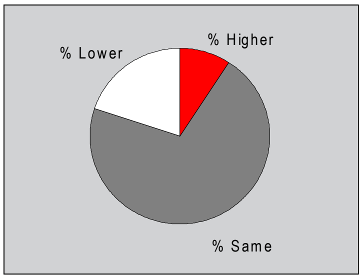


Continuing the trend that has been recorded since June, production at Brazilian manufacturing companies fell in August. The rate of contraction was strong and the fastest since March 2009. Over 17% of survey respondents reported lower output levels, compared with 8% that registered an increase. Declines were generally linked to weaker client demand and deteriorating market conditions.

New Orders Index

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

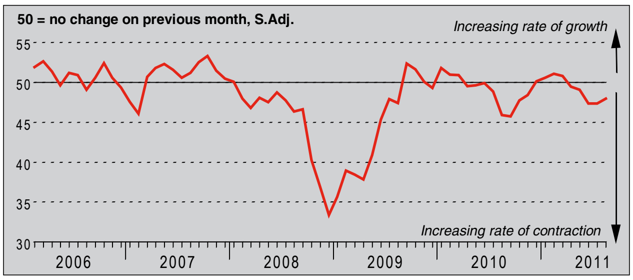


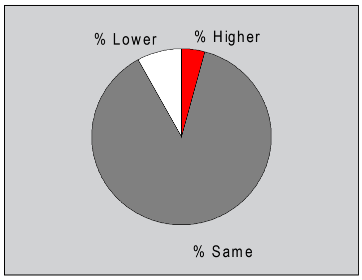


Incoming new work received by Brazilian manufacturers decreased further during August. Almost one-fifth of panellists reported a lower level of new orders during the latest survey period, and attributed the decline to weak global demand. Moreover, a number of firms also commented on stronger competitive pressures in August. Overall, the rate of decrease strengthened since July to the fastest in 29 months.

New Export Orders Index

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

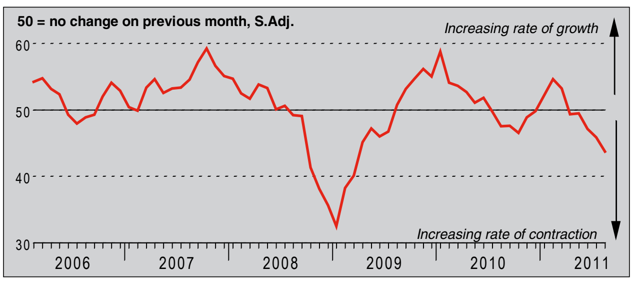


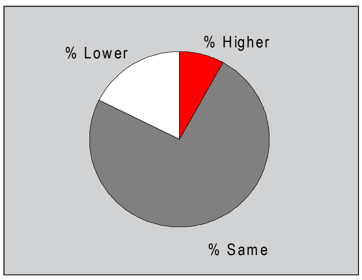


The seasonally adjusted New Export Orders Index posted below the 50.0 no-change threshold that separates growth from contraction for the fifth consecutive month in August. This signalled a further solid decline in the volume of new work from abroad. Respondents suggested that demand for Brazilian manufactured goods weakened, as foreign clients were concerned over the strength of the global economic recovery.

Backlogs of Work Index

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

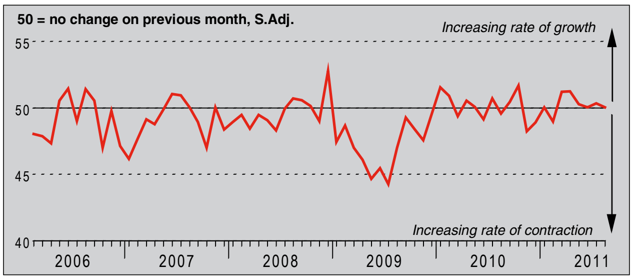


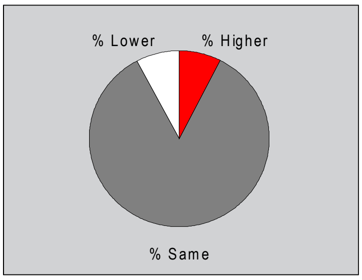


Reflective of the contractions in output and new orders, the amount of outstanding work at Brazilian manufacturers declined further in August. This was indicated by the seasonally adjusted Backlogs of Work Index registering below the 50.0 no-change mark that separates backlog accumulation from depletion during the latest survey period. Notably, the latest index reading was the lowest since March 2009.

Stocks of Finished Goods Index

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

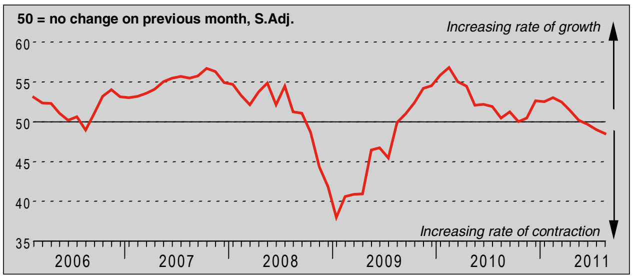


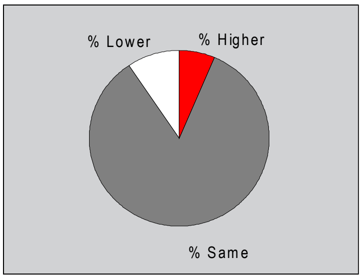


Monitored companies increased their holdings of finished goods in August, extending the current period of growth to six months. Anecdotal evidence attributed the increase in stocks to lower new order volumes. That said, the latest accumulation of finished goods was weaker than that registered in July, and marginal overall.

Employment Index

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

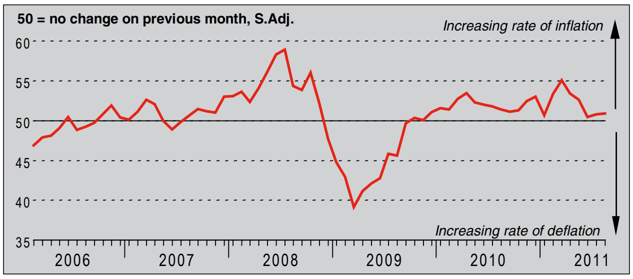


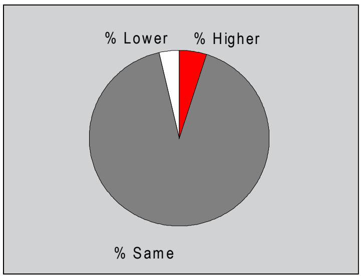


Employment in Brazil's manufacturing sector decreased for the third consecutive month in August. The rate of job losses was moderate overall, but nonetheless the fastest in 25 months. Almost 10% of survey respondents reduced their workforces, compared with 6% that employed additional staff, and generally commented on the recent falls in output and new orders.

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.

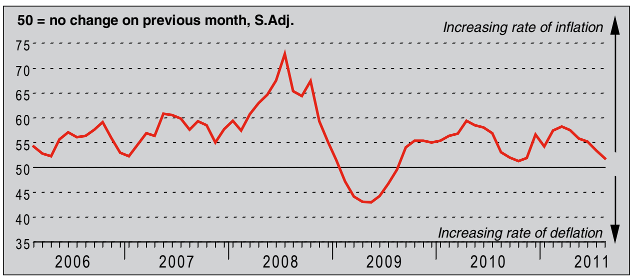


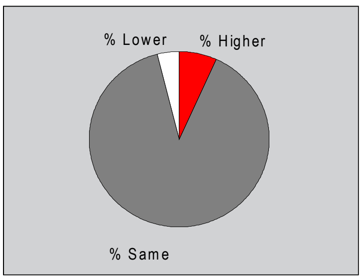


Brazilian manufacturers raised their factory gate prices in August, continuing the trend that has been recorded since October 2009. The rate of output price inflation remained modest, yet strengthened since July to the fastest in three months. Evidence from the latest survey suggested that higher raw material costs were passed on to clients in August.

Input Prices Index

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

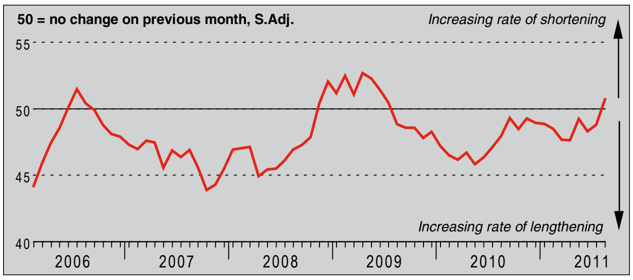


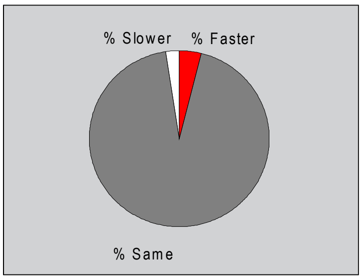


In August, the average price of inputs paid by survey respondents rose modestly. Higher input costs have been recorded in each month since September 2009. Firms particularly mentioned metals such as zinc and steel as having increased in price during the latest survey period. Nevertheless, the rate of input cost inflation eased since July to a nine-month low.

Suppliers' Delivery Times Index

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

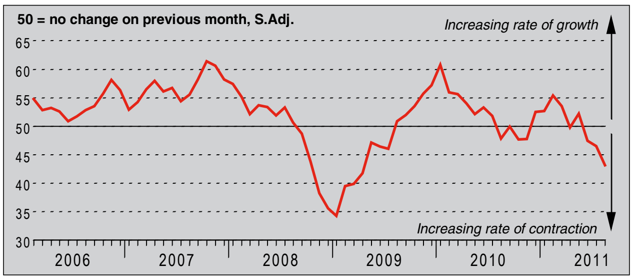


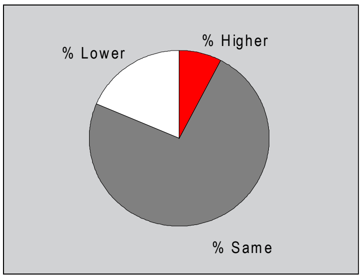


Brazilian manufacturing companies recorded faster suppliers' delivery times in August. This subsequently ended a two-year period of increasing lead times. Anecdotal evidence provided by panellists suggested that a combination of weaker demand for inputs and vendors being better prepared to supply raw materials had resulted in faster deliveries on average in August.

Quantity of Purchases Index

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

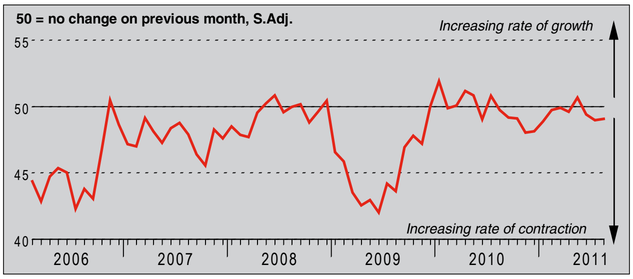


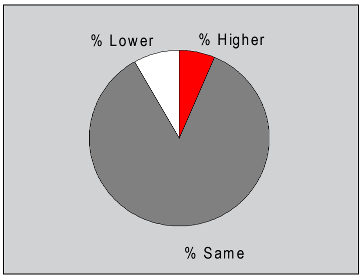


Surveyed firms operating in Brazil's manufacturing sector reduced the amount of inputs bought in August. Purchasing activity has now decreased in each of the past three months. Almost 19% of monitored companies bought less items, compared with 8% that increased their purchases, and generally linked declines to lower production requirements.

Stocks of Purchases Index

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





Following the trend that has been registered since June, stocks of purchases were reduced by Brazilian manufacturers in August. This was signalled by the seasonally adjusted Stocks of Purchases Index posting below the 50.0 no-change threshold that separates inventory accumulation from depletion. A number of panellists commented that they actively reduced input inventories in order to adapt to the recent market downturn.

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 industry contribution to Brazilian GDP. 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.

Warning