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HSBC Brazil Manufacturing PMI™

New orders fall at fastest pace since March 2009

Key findings:

- New work intake declines for sixth consecutive month
- Rate of job losses strongest in 26 months
- Headline PMI remains firmly below 50.0 no-change mark

Business conditions in Brazil's manufacturing sector deteriorated for the fourth consecutive month in September. Moreover, the rate of contraction quickened since August to post the strongest decline in 29 months. Both output and new orders fell during the latest survey period, with firms reporting weak global demand and strong competitive pressures.

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 45.5 in September, down from 46.0 in August, signalling a strong deterioration in Brazilian manufacturing sector business conditions. Moreover, the average PMI reading for Q3 as a whole indicated that the rate of contraction was the fastest since Q1 2009.

In September, the volume of new orders received by Brazilian manufacturers declined for the sixth month running. The rate of decrease was strong and the fastest since March 2009. Almost 17% of firms reported a lower level of new work (while 9% registered an increase), and largely attributed declines to weak demand.

New export orders also fell during the latest survey period. A number of monitored companies suggested that unfavourable exchange rates and stronger competitive pressures contributed to the latest fall in export orders.

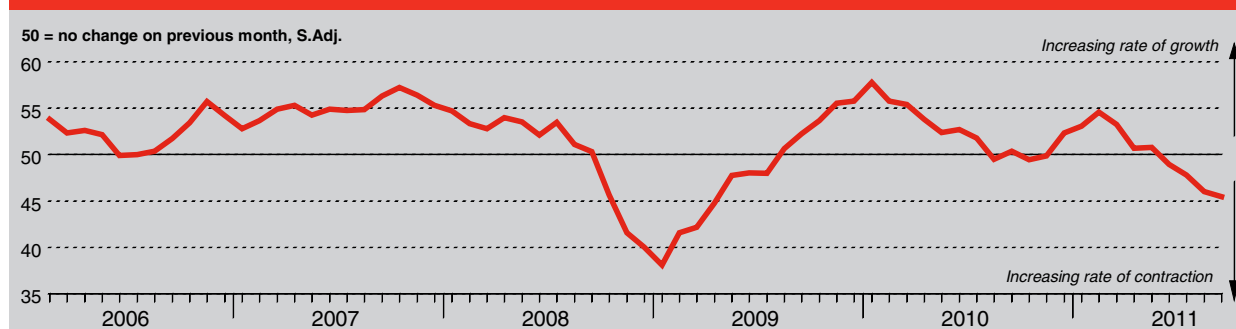
Reflective of the further reduction in new orders, production at Brazilian manufacturers declined for the fourth consecutive month in September. Moreover, the rate of contraction strengthened to the fastest since March 2009. Backlogs also fell during the latest survey period, while stocks of finished goods were depleted for the first time in seven months.

The amount of inputs purchased by Brazilian manufacturing firms decreased in September. Input inventories were also reduced during the latest survey period. Anecdotal evidence provided by panellists suggested that purchasing activity fell as output and new order volumes declined further. Suppliers' delivery times meanwhile quickened during September, albeit only marginally.

Employment in Brazil's manufacturing sector fell further in September, extending the current period of job losses to four months. Surveyed firms commented that staff headcounts were reduced in an attempt to control costs.

Brazilian manufacturers recorded higher input prices during the latest survey period, with steel and food products particularly mentioned as having increased in cost. Nevertheless, the rate of input price inflation remained below the long-run series average, despite strengthening since August. Overall, firms passed on greater cost burdens to clients by raising their output charges, but the rise in factory gate prices was only slight.

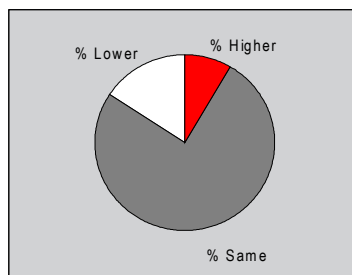
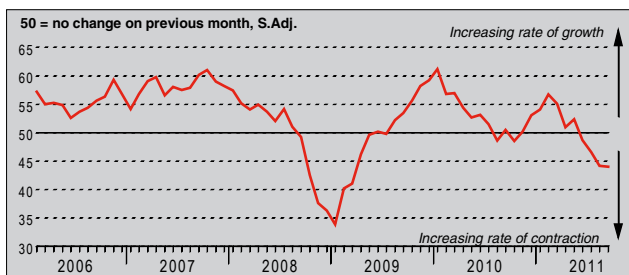
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

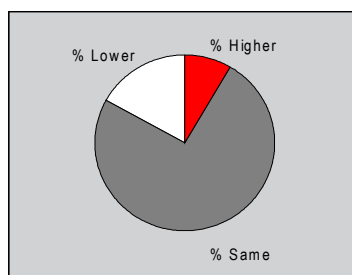
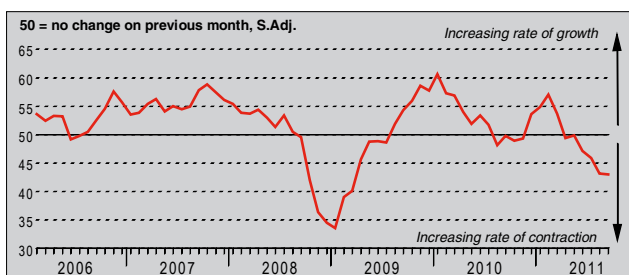
Q. Please compare your production/output this month with the situation one month ago.



Production at Brazilian manufacturers declined for the fourth consecutive month in September. The latest fall was strong and the fastest since March 2009. Panellists generally linked the decrease in output levels to weaker demand and the current global economic crisis. Moreover, a number of monitored companies also suggested that stronger competitive pressures, particularly from abroad, contributed to the fall in output.

New Orders Index

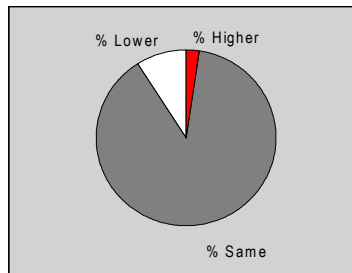
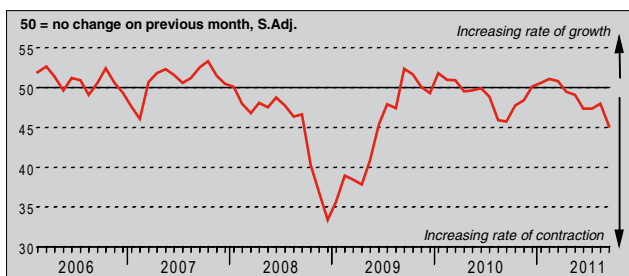
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



The volume of new orders received by Brazilian manufacturing companies decreased further during September. New orders have declined in each month since April, with the latest fall the strongest in 30 months. Almost 17% of surveyed firms reported lower new orders, and generally attributed the declines to weak global demand and strong competitive pressures.

New Export Orders Index

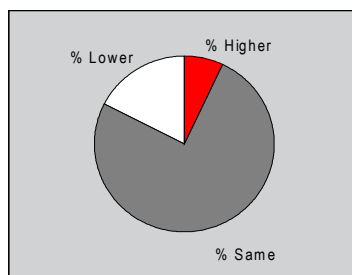
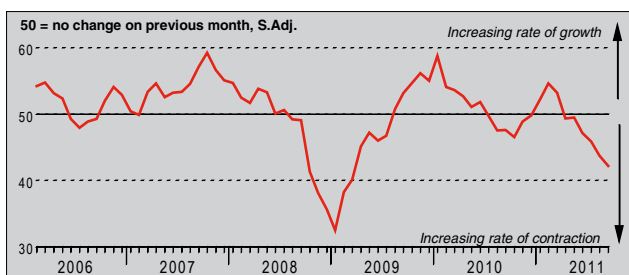
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Monitored companies operating in Brazil's manufacturing sector recorded a lower level of new export orders in September. Anecdotal evidence suggested that unfavourable exchange rates and greater international competition had reduced the volume of new orders from foreign clients during the latest survey period. Overall, the fall in new export orders was sharp, and the fastest since May 2009.

Backlogs of Work Index

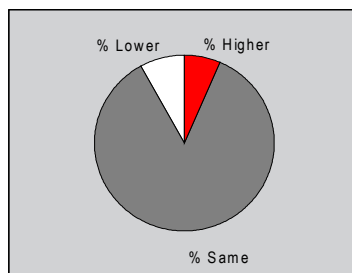
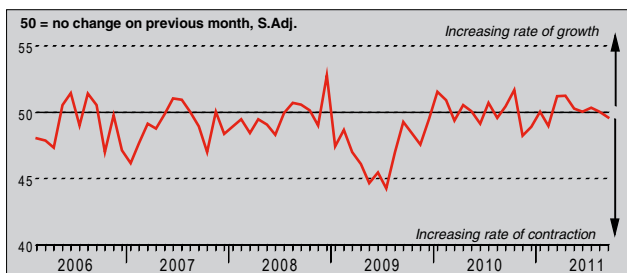
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index posted below the 50.0 no-change threshold that separates growth from contraction in September, and signalled a sharp fall in the level of outstanding business. Almost 18% of surveyed firms reported a depletion of work-in-hand, compared with only 7% that registered an increase, and generally linked the decrease to a further reduction in new order volumes.

Stocks of Finished Goods Index

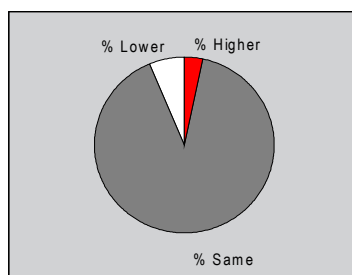
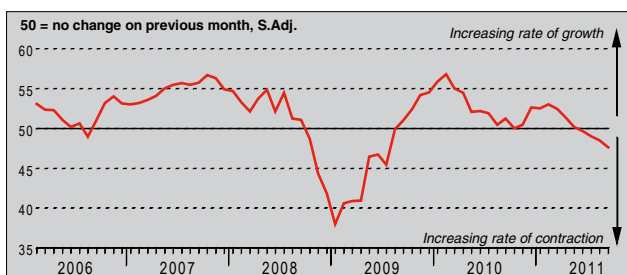
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the previous accumulation that had been registered since March, the amount of finished goods held as stock by Brazilian manufacturers fell during September. The decline was only modest, however, with the seasonally adjusted Stocks of Finished Goods Index posting only slightly below the 50.0 no-change mark. Firms suggested that inventories were depleted in order to fulfil new order requirements during the latest survey period.

Employment Index

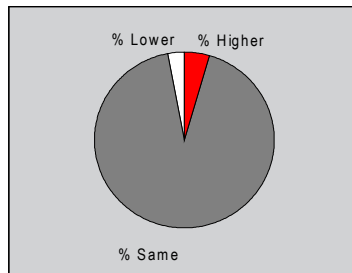
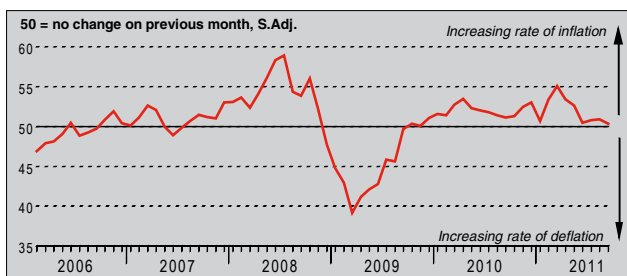
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Brazilian manufacturing sector declined for the fourth month running in September. Around 6% of survey respondents reduced their headcounts, while only 3% hired additional staff. Subsequently, the rate of job losses strengthened since August, to the fastest in 26 months. A number of monitored companies commented that their workforces were reduced in an attempt to control costs.

Output Prices Index

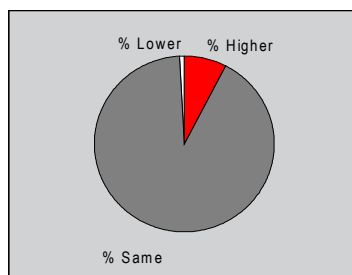
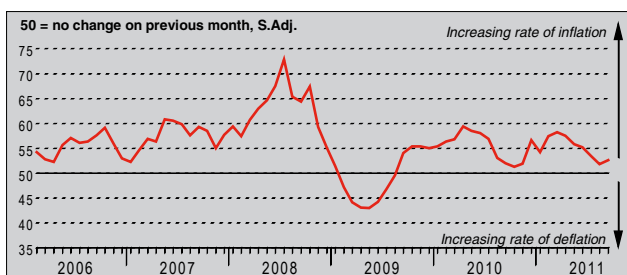
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The average price charged for Brazilian manufactured goods increased during September, extending the current period of output price inflation to two years. On the whole, firms raised their output prices to pass on higher raw material costs to clients. Nevertheless, the latest rise in factory gate charges was only marginal and the slowest since November 2009.

Input Prices Index

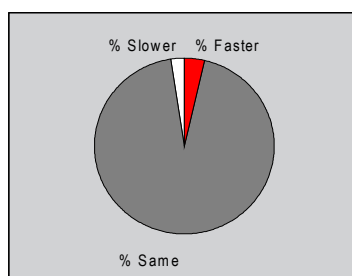
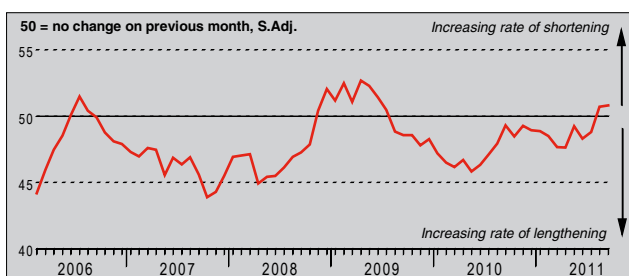
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Brazilian manufacturing companies reported higher input costs in September. Steel and food products were particularly mentioned by panellists as having increased in price. Despite the rate of input price inflation strengthening since August, it remained only moderate and below the long-run series average.

Suppliers' Delivery Times Index

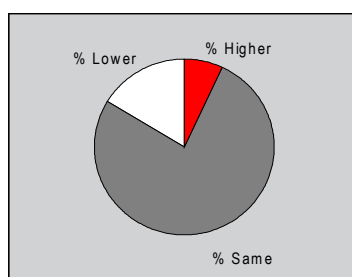
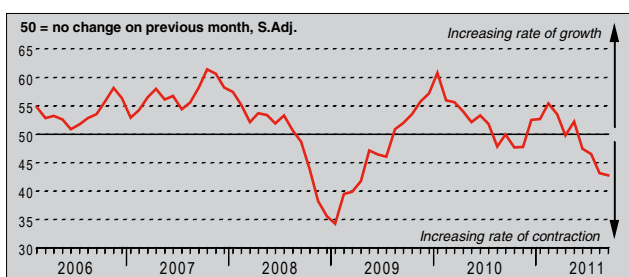
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance improved for the second consecutive month in September, as signalled by the seasonally adjusted Suppliers' Delivery Times Index posting above the 50.0 no-change level that separates faster from slower lead times. However, delivery times were only slightly quicker than in the previous survey period.

Quantity of Purchases Index

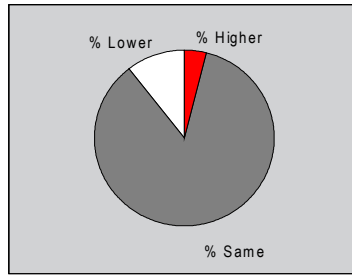
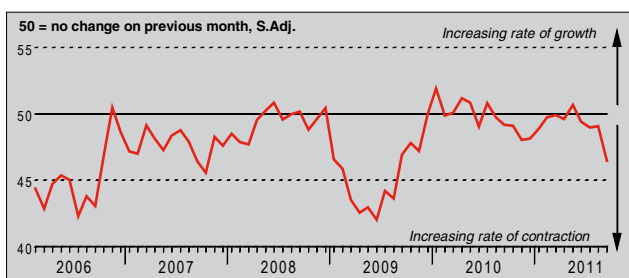
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of falls in both output and new orders, the amount of inputs purchased by Brazilian manufacturers decreased in September. Firms have reduced purchasing activity in each of the past four survey periods, with the latest rate of decline below the long-run series average and the fastest since April 2009.

Stocks of Purchases Index

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



Continuing the trend that has been registered since June, input inventories were depleted during September. Almost 11% of survey respondents reduced their stock holdings (compared with 4% that increased their inventories), and largely attributed declines to recent falls in new orders and output.

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 (PMI™) 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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