

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

HSBC Brazil Manufacturing PMI™

Sustained contractions in both output and new orders

Key findings:

- Solid declines in production and new work intakes, albeit at weaker rates
- Strongest rate of job losses since July 2009
- Input price pressures intensify in October

Brazilian manufacturing sector business conditions deteriorated further in October, with firms reporting lower output and new orders. Weak client demand and an uncertain economic outlook were often cited by survey respondents. Although the overall deterioration in business conditions remained solid, the rate of decline eased since September.

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 46.5 in October, remaining below the 50.0 no-change threshold that separates growth from contraction for the fifth successive month. Despite rising since September's reading of 45.5 to a three-month high, the PMI continued to signal a solid deterioration in overall operating conditions during the latest survey period.

The deterioration in business conditions was linked to lower new order volumes in October. The decline was solid, albeit the slowest in three months. Anecdotal evidence generally attributed the fall in new orders to weak client demand. Incoming new work from abroad also declined, with a number of firms suggesting that clients had postponed orders as foreign exchange rates were unfavourable.

Reflective of the further decline in new orders, production fell

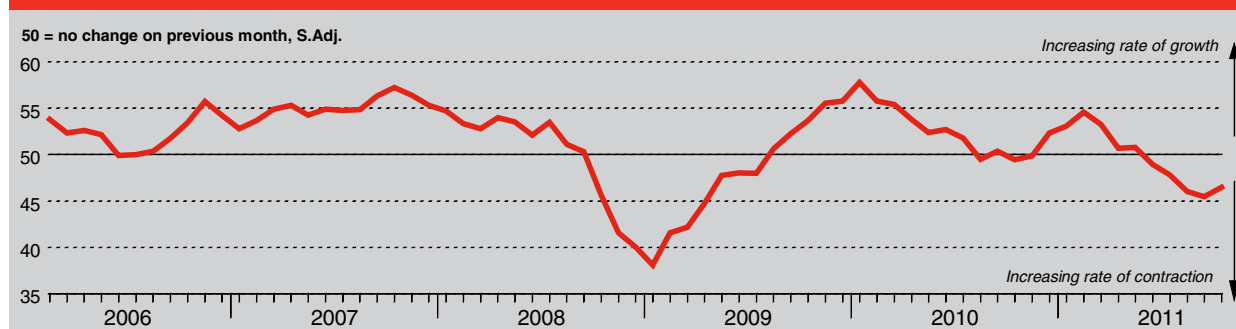
for the fifth consecutive month in October. The rate of contraction was solid, although the weakest since July. Meanwhile, panellists depleted stocks of finished goods and reduced backlogs. Notably, the decrease in outstanding business remained strong, but slowed sharply since the previous survey period.

Monitored companies reduced both their purchases and inventories of inputs during October. Respondents generally linked this to lower production requirements. Reflective of lower demand for inputs, suppliers' delivery times quickened for the third consecutive month, albeit only marginally.

Employment in Brazil's manufacturing sector declined further during the latest survey period. Job losses have been recorded in every month since June, with the latest reduction in staff headcounts the strongest in 27 months.

Input costs faced by Brazilian manufacturers increased in October, taking the current period of inflation to 26 months. Panellists commented that higher raw material prices and unfavourable foreign exchange rates contributed to greater cost burdens. Firms attempted to pass on higher input prices to clients by raising output charges. However, factory gate prices rose only fractionally, as companies reported stronger competitive pressures.

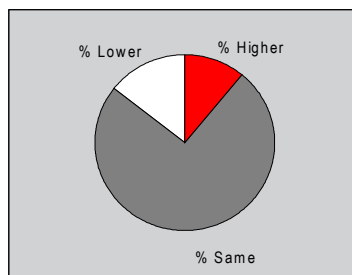
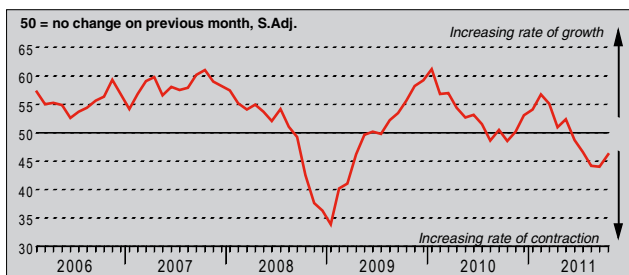
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

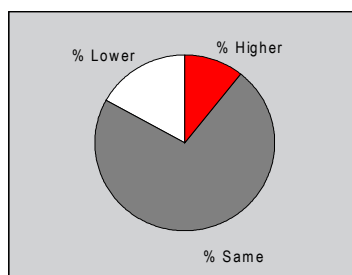
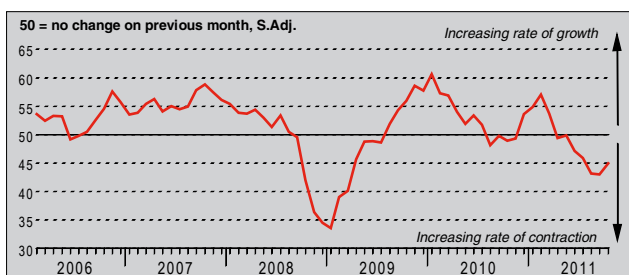
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturers reported lower production levels in October, continuing the trend that has been recorded since June. The latest fall in output was solid, albeit softer than in September. Approximately 14% of surveyed firms registered a reduction, compared with 11% that posted an increase, and generally linked declines in production to lower new order volumes.

New Orders Index

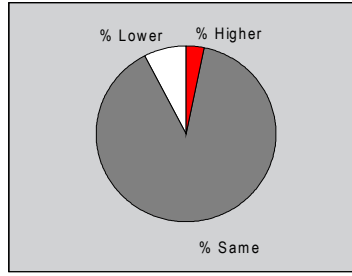
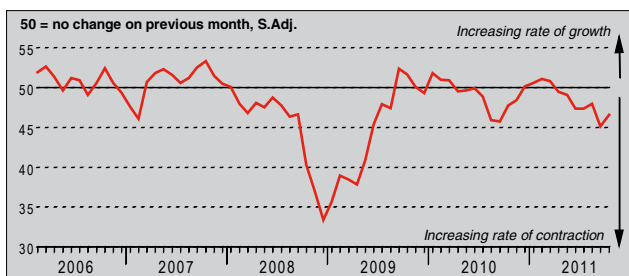
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Incoming new work at firms operating in Brazil's manufacturing sector fell for the seventh consecutive month in October. The decline in new orders was solid, with panellists reporting weak client demand and an uncertain economic outlook. That said, the rate of decrease eased since the previous survey period, to the weakest in three months.

New Export Orders Index

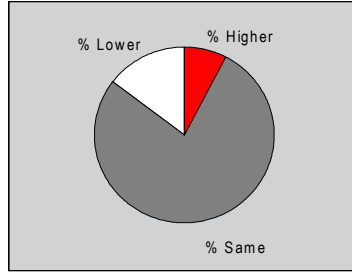
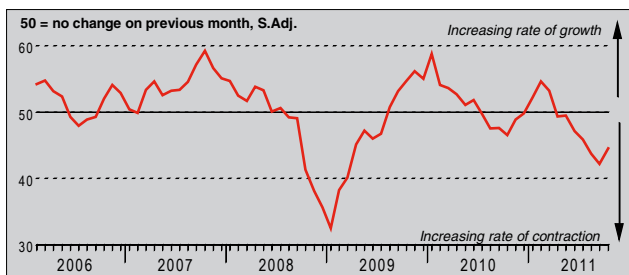
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export orders received by Brazilian manufacturing firms decreased in October. New work intakes from abroad have declined in each survey period since April, with the latest fall remaining solid and faster than the long-run series average. Anecdotal evidence suggested that clients had postponed orders as foreign exchange rates were unfavourable. Nevertheless, the overall decline in new export work slowed since September, as indicated by a higher seasonally adjusted New Export Orders Index reading.

Backlogs of Work Index

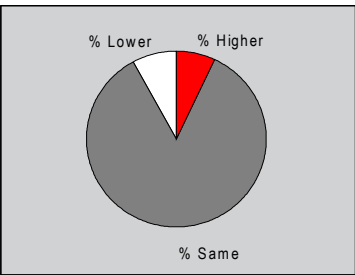
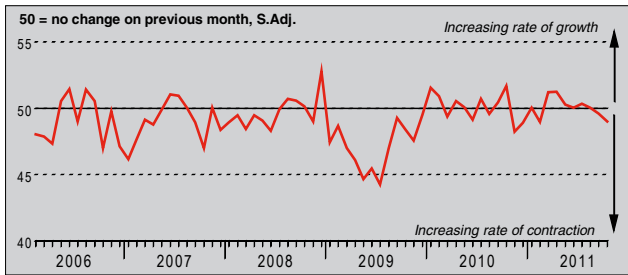
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Brazilian manufacturers declined further in October. This was signalled by the seasonally adjusted Backlogs of Work Index posting below the 50.0 no-change mark that separates backlog accumulation from depletion. Work-in-hand fell strongly in October, although the rate of decrease slowed from that recorded in September. Respondents generally linked the latest fall in outstanding business to declines in new orders.

Stocks of Finished Goods Index

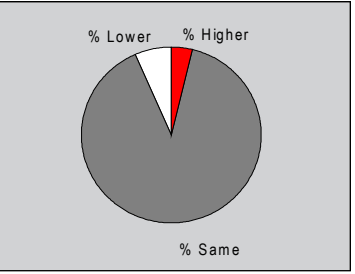
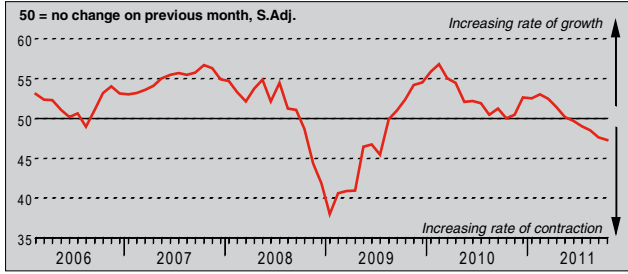
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Continuing the trend that was registered in September, stocks of finished goods decreased during October. However, inventory reduction was only modest, with the seasonally adjusted Stocks of Finished Goods Index posting only slightly below the 50.0 no-change threshold that separates accumulation from depletion.

Employment Index

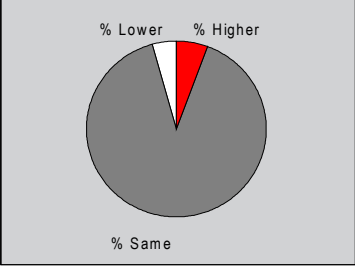
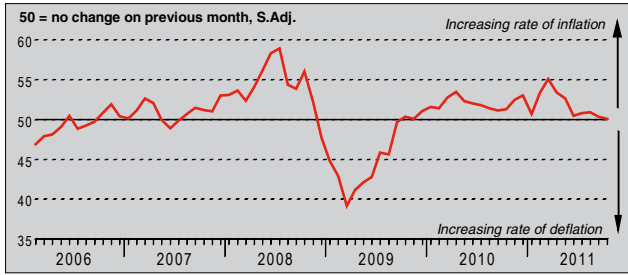
Q. Please compare the level of employment at your unit with the situation one month ago.



Monitored companies operating in Brazil's manufacturing sector reduced their workforces for the fifth successive month in October. Moreover, the rate of job losses was the fastest since July 2009. The decrease in staff headcounts reflected falls in new orders and output during the latest survey period.

Output Prices Index

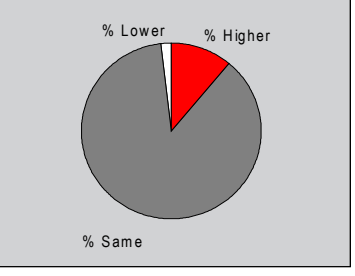
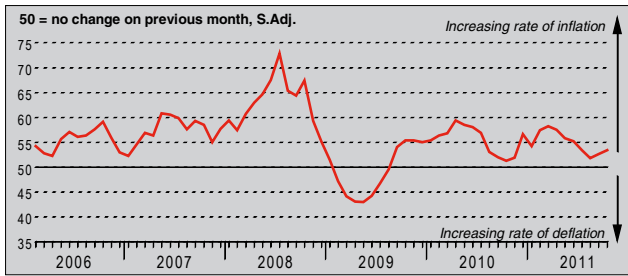
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Factory gate prices rose only marginally in October, as signalled by the seasonally adjusted Output Prices Index posting fractionally above the 50.0 no-change level that separates inflation from deflation. Almost 6% of survey respondents raised their output charges, as higher raw material costs were passed on to clients. Meanwhile, approximately 4% of firms reduced their selling prices, largely citing stronger competitive pressures.

Input Prices Index

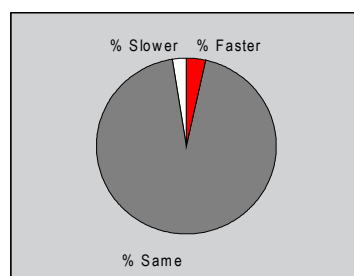
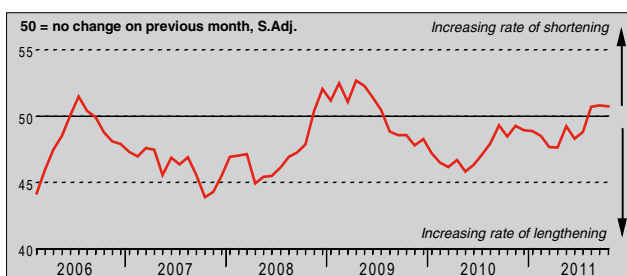
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by Brazilian manufacturing firms increased in October, as has been the case since September 2009. Exactly 11% of panellists reported higher input prices, while only 2% saw a reduction. Subsequently, the rate of inflation quickened since the previous survey period to a four-month high. Anecdotal evidence suggested that higher raw material costs and unfavourable exchange rates contributed to the overall rise in cost burdens.

Suppliers' Delivery Times Index

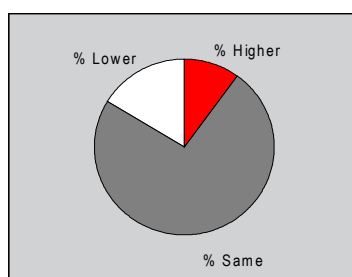
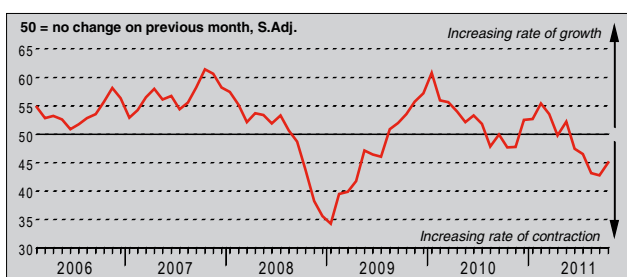
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on inputs were shortened for the third month running in October. The seasonally adjusted Suppliers' Delivery Times Index, was unchanged from September and remained above the 50.0 no-change mark, to indicate a modest improvement in vendor performance. Monitored companies generally attributed the latest decrease in delivery times to weaker demand for inputs.

Quantity of Purchases Index

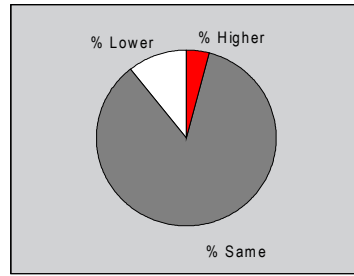
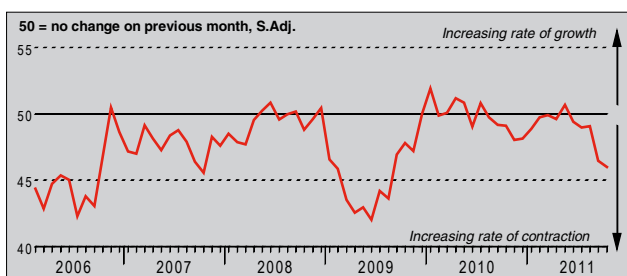
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of the further fall in output, the amount of inputs purchased by Brazilian manufacturing companies decreased for the fifth consecutive month in October. Around 16% of survey respondents reduced their purchasing activity, while 10% bought a greater volume of inputs. Although the latest decline in purchases was solid, it was the weakest since July.

Stocks of Purchases Index

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



Input inventories were depleted in October, extending the current period of contraction to five months. Evidence from the latest survey suggested that firms reduced their stocks of purchases as both output and new orders fell further. Moreover, the rate of decrease strengthened since the previous survey period to the fastest in 26 months.

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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