HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Manufacturing PMI™

Further declines in both output and new orders during May

Summary

May data signalled a second monthly decline in both output and new orders at Brazilian manufacturers. Firms generally attributed this to weak client demand. Nevertheless, the rates of contractions were only modest, and weaker than those registered in April. Concurrently, job losses were also reported during May, while the rates of input and output price inflation strengthened to 11- and 12-month highs respectively.

After adjusting for seasonal variation, the HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted below the 50.0 no-change level for the second month running in May. Nevertheless, at 49.3, unchanged from April, the PMI was only slightly below this threshold and signalled only a modest deterioration in Brazilian manufacturing business conditions.

Firms working in Brazil's manufacturing sector generally linked the deterioration in operating conditions to weak client demand. The volume of new orders received by companies fell for the second consecutive month in May, albeit the decline was only modest and to a lesser extent than in April. Meanwhile, new export orders also fell during May, with the rate of decline solid and the strongest in 2012 to date.

Reflective of lower new order volumes, manufacturers reduced their output further in May. Production fell modestly, and at a rate broadly similar to that registered in the previous survey period. Firms also reduced their stocks of finished goods for the ninth month running, while outstanding business fell solidly since April.

The quantity of inputs bought by Brazilian manufacturing firms decreased in May. The decline in purchases was solid and to the greatest extent since October 2011. Concurrently, suppliers' delivery times lengthened further. However, the latest increase in lead times was only marginal, with the corresponding index above its long-run series average.

Job losses were reported in Brazil's manufacturing sector for the second successive month in May. Panellists that reduced their workforces generally commented on lower production requirements. That said, staffing levels fell only marginally in May, with the rate of decline having eased since April.

Input costs faced by firms rose further in May, with higher raw material prices and unfavourable exchange rates contributing to the overall increase. Although the rate of input price inflation was the strongest in 11 months, it remained weaker than the long-run series average. Firms passed on larger cost burdens to clients by raising their selling prices. Nevertheless, the latest increase in charges was only modest, despite being the strongest monthly rise in a year.

Comment

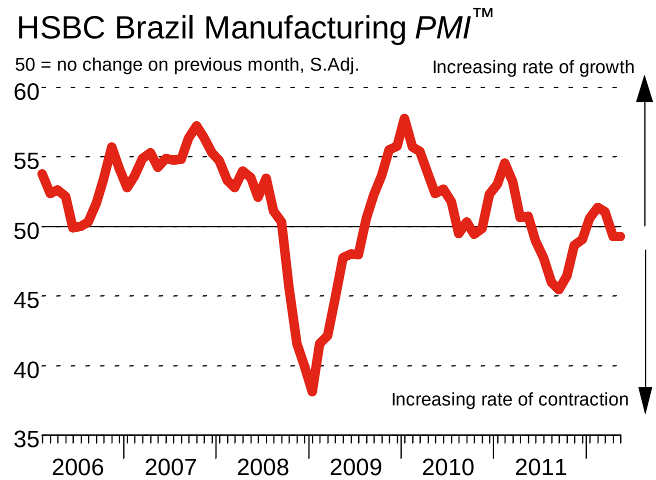
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Manufacturing PMI index remained unchanged at 49.3 in May. This is the second consecutive month where the manufacturing PMI has been below 50 (after above-50 readings in the first quarter), and reinforces the perception that Brazil's manufacturing sector is going through a particularly difficult time, squeezed between rising costs on one side, and competition from imports on the other. Although the weaker BRL may provide some relief, it will take several months for this to translate into an improvement in the sector's performance."

Key points

- Modest fall in incoming new work, with rate of contraction weaker than in April
- Job losses for second consecutive month
- Rate of input price inflation at 11-month high

Historical Overview



Sources: HSBC, Markit.

For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone +55-11-3371-8184
Email andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email constantin.c.jancso@hsbc.com.br

Renata Binotto, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5786
Email renata.binotto@hsbc.com.br

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283 / +44-782-789-1072
Email rachel.harling@markit.com

Notes to Editors:

The HSBC Brazil Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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