

HSBC Brazil Manufacturing PMI™

Output and new orders both decline at strongest rates in eight months

Summary

June data indicated a further deterioration in manufacturing business conditions in Brazil. Both output and new orders fell over the month, with the rates of contraction the strongest in eight months. Manufacturers generally commented on weak client demand. Concurrently, job losses were reported for the third month running, while the rate of input price inflation eased from May's 11-month high, albeit marginally.

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 – remained below the 50.0 no-change threshold in June. At 48.5, down from 49.3 in May, the index was at an eight-month low and signalled a modest deterioration in business conditions.

Brazilian manufacturers received a lower volume of new orders in June, with firms generally citing weak client demand. New export orders also fell over the month, continuing the trend that has been registered since April 2011. Overall, total new orders fell modestly over the month, with the rate of contraction the strongest since last October.

Reflective of lower new order requirements, firms reduced their output during June. Approximately 16% of companies recorded lower production levels, with the overall decline the fastest in eight months. Stocks of finished goods meanwhile were depleted for the tenth consecutive month, albeit marginally, and backlogs of work fell further during the latest survey period.

Firms bought a lower quantity of inputs for the third consecutive month in June. Inventories of pre-production goods also fell, taking the current period of stock depletion to 13 months. Where buying activity declined, panellists largely attributed this to lower production requirements. Nonetheless, suppliers' delivery times lengthened further in June, but the latest increase in lead times was only slight, with the corresponding index only marginally below the 50.0 no-change threshold.

Job losses were reported for the third straight month in June, with approximately 9% of manufacturers reducing their workforces from May. Overall, employment fell solidly over the month, and to the greatest extent since October 2011.

Continuing the trend that has been registered in each month since September 2009, input costs faced by Brazilian manufacturers increased in June. Higher raw

material prices and exchange rate fluctuations were generally commented on as having contributed to the overall rise in cost burdens.

Comment

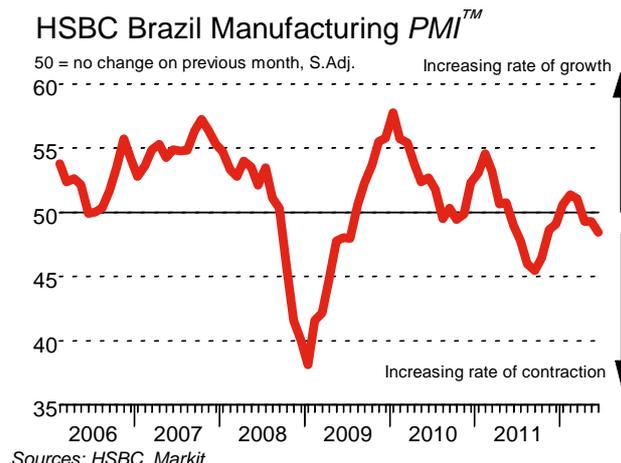
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Manufacturing PMI declined further in June to 48.5. This means that the 2Q average was 49.0, slightly below last quarter's average of 51.0 and 2Q2011 average of 50.1. This also reinforces the perception that the manufacturing sector kept struggling with competitiveness issues. A weaker BRL and lower interest rates may provide some relief in the medium term, but the breakdown of the survey suggests that in the short term, things are likely to remain challenging for manufacturers."

Key points

- Modest reductions in both output and new orders in June
- Job losses reported for third month running
- PMI signals strongest deterioration in manufacturing business conditions since October 2011

Historical Overview



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

Caroline Lumley, Corporate Communications
Telephone +44-20-7060-2047 / +44-781-581-2162
Email caroline.lumley@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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