HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Manufacturing PMI™

Marginal declines in both output and new orders in August

Summary

August data indicated only a marginal deterioration in Brazil's manufacturing sector business conditions. Both output and new orders fell over the month, but the rates of contraction were only marginal and the weakest in the current five-month sequences. Employment also declined for the fifth consecutive month, but the rate of job losses was only modest overall. Firms meanwhile reported higher input and output prices in August, with the rates of inflation both strengthening from July.

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 mark in August, indicating a further deterioration in manufacturing business conditions. However, at 49.3, up from 48.7 in July, the PMI was only marginally below the neutral threshold and indicated only a slight contraction overall.

Brazilian manufacturers reported a further decline in new order volumes in August. New work intakes have fallen in each of the past five months, but the latest reduction was only marginal and the weakest in this sequence. New export orders also fell over the month, continuing the trend that has been recorded since April 2011.

Reflective of lower new order requirements, firms reduced their output during the latest survey period. However, production fell only fractionally from one month previously. Stocks of finished goods also declined in August, albeit to a lesser extent than that registered in July, while backlogs of work were depleted for the fifth month running.

Concurrently, manufacturers bought a lower quantity of inputs in August. Input inventories also declined over the month, with the rate of stock depletion quickening to its fastest pace since May. Meanwhile, suppliers' delivery times lengthened further during the latest survey period. Longer lead times have been reported in each month of 2012 so far, but the latest deterioration in vendor performance was only slight.

Manufacturing employment in Brazil fell for the fifth consecutive month in August. Approximately 6% of surveyed firms reduced their staffing levels since July, with respondents generally citing recent declines in production. Nonetheless, the overall rate of decrease was only modest and the weakest for three months.

Input costs faced by companies increased further in August, with transportation, food and steel all particularly mentioned by panellists as having increased in price. Moreover, the rate of input price inflation was strong and the joint-fastest in 14 months. Firms also raised their selling prices, with the latest increase in output charges the strongest since April 2011.

Comment

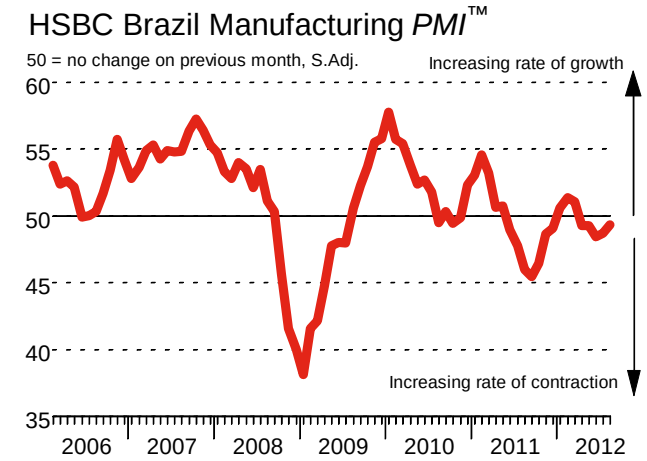
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Manufacturing PMI rose slightly in August, reaching 49.3 from 48.7 in July. While the headline index and its key components remain below the 50 threshold, the contraction of the industrial sector in Brazil is the smallest since May. The rise in the headline PMI from July to August was supported by an improvement of both the Output and New Orders Indices. The Employment Index also showed a smaller rate of contraction than in the previous month."

Key points

- New orders fall at weakest rate of current sequence
- Job losses registered for fifth consecutive month
- Input price inflation quickens to joint-fastest pace in 14 months

Historical Overview



Sources: HSBC, Markit.

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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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