HSBC Purchasing Managers' Index[™] Press Release Embargoed until: 10:00 (Sao Paulo), 01 October 2012

HSBC Brazil Manufacturing PMI[™]

Output increases for first time since March

Summary

Production in the Brazilian manufacturing sector increased in September. Whereas new orders and new export orders both fell, companies depleted backlogs to support production. Stocks of purchases and purchasing activity also fell in the reporting month. Input and output price inflation persisted. Meanwhile, workforces contracted for the sixth successive month.

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 mark in September, indicating a further deterioration in the health of the sector. The PMI posted 49.8, up from the reading of 49.3 in August, to signal only a fractional decline and the slowest drop in the current sequence of contraction.

Output increased slightly in September, the first expansion recorded since March. Panel respondents indicated that production increased as firms prepared for the launch of new products. Furthermore, firms used the depletion of backlogs of work to support output growth.

New orders fell slightly, marking a six-month sequence of contraction. Anecdotal evidence suggested that weaker demand led to lower order book volumes. New export orders also fell, and at a slight pace.

Pre-production inventories at manufacturing companies in Brazil fell during September. However, the rate of depletion was only slight and broadly unchanged from that recorded in August. Stocks of finished goods also decreased, marking a 13-month sequence of depletion. The pace of contraction, however, was only fractional.

Input prices in the Brazilian manufacturing sector increased for the thirty-seventh successive month. The pace of inflation was solid and the fastest since June 2011. Anecdotal evidence suggested that input costs increased in line with higher steel and raw material prices. Moreover, firms stated that prices were adjusted to reflect general inflation.

Manufacturers passed the burden of higher purchase costs on to their clients as charges increased again in September. The rate of output price inflation was solid but broadly unchanged from that recorded in August. Charges have increased in each of the past seven months.

Payroll numbers fell in September, amid reports of weaker demand. The pace of job losses was, however, only slight and the slowest since May. Meanwhile,

backlogs of work contracted modestly. That said, the rate of depletion accelerated from August.

Purchasing activity contracted moderately and at a similar rate to August. Average lead times, meanwhile, deteriorated for the ninth successive month. According to respondents, precarious road conditions affected vendor performance.

Comment

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

"The HSBC Manufacturing PMI moved closer to neutral territory in September, rising from 49.3 in August to 49.8. The output index, in fact, rose above the 50 mark for the first time since March. Overall, the PMI survey reinforces perceptions that Brazil's manufacturing sector experienced a modest rebound at the end of the third quarter and supports the improvement of sentiment regarding the economic outlook for the fourth quarter of 2012."

Key points

- Production rises despite contraction of new orders
- Output growth supported by depletion in backlogs
- Input price inflation accelerates to the fastest since June 2011

Historical Overview

HSBC Brazil Manufacturing PMI[™]



2009 2008 2007 2010 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

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

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

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@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' IndexTM (PMITM)* 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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