HSBC Purchasing Managers' Index[™] Press Release

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HSBC Brazil Manufacturing PMI[™]

PMI unchanged from May's seven-month low

Summary

The seasonally adjusted HSBC Brazil Purchasing Managers' Index[™] (PMI[™]) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy - posted 50.4 in June, unchanged from May's seven-month low. Despite remaining in positive territory for the ninth consecutive month, the latest PMI reading indicated that operating conditions improved only marginally.

New orders placed at manufacturers in Brazil rose during June. That said, the pace of expansion was only marginal and the weakest in the current nine-month period of growth. Monitored companies reported the securing of new clients, but mentioned weaker foreign demand and increased competition. Export business fell for the third month running, and at the sharpest rate in a year-and-a-half. Panellists commented on frail demand from European clients.

Subsequently, output increased only modestly in June. All three monitored sub-sectors recorded higher production levels, with the fastest rise noted at consumer goods producers. Output growth across the overall manufacturing sector has been recorded in each month since September 2012.

Manufacturers increased their buying activity during June. The overall rate of expansion was slight and littlechanged from one month previously. Higher quantities of purchases were generally associated with new contract wins. Meanwhile, average lead times lengthened further, taking the current sequence of worsening vendor performance to 18 months. In addition to increased pressure at suppliers, surveyed firms linked the latest deterioration to poor road conditions.

On the price front, faster rates of inflation were signalled in June. Input cost inflation accelerated to the guickest in 25 months, whereas the rise in charges was the fastest since March 2011. Higher purchase prices were generally linked to increased raw material costs and unfavourable exchange rates. Tariffs were reportedly raised in attempts to pass on to clients part of the increased cost burden.

Weaker gains in new orders once again contributed to cautious hiring trends in the Brazilian manufacturing sector. Net job shedding was recorded for the third successive month, although the pace of decrease was less pronounced than in May. Staffing levels fell at investment goods producers, whereas a modest increase was registered in the consumer goods sector.

Employment across the intermediate goods sector was unchanged from one month previously.

June data highlighted lower stocks of purchases at manufacturers in Brazil and another contraction in postproduction inventories. Holdings of both raw materials and finished goods were depleted at slight rates, but the fall in stocks of finished goods was the fastest in 15 months.

Comment

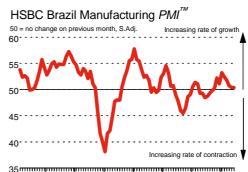
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI Index stood at 50.4 in June, unchanged from May. For the second quarter as a whole, the index averaged 50.5 - the weakest quarterly performance since 3Q2012 reinforcing the perception that after beginning the year on a relatively strong note, economic activity in the manufacturing sector lost momentum. New order growth eased further, showing no signs of a rebound in the coming months. There was also bad news on the inflation front, with prices climbing at faster rates in June. Input costs increased at the quickest pace since May 2011, while the rise in charges was the most pronounced since March 2011."

Key points

- Marginal improvement in manufacturing operating conditions
- Output expands, albeit modestly
- New order growth weakest in current nine-month expansionary sequence

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' 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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