HSBC Purchasing Managers' Index[™] **Press Release** Embargoed until: 10:00 (Sao Paulo), 2 September 2013

HSBC Brazil Manufacturing PMI[™]

Deterioration of manufacturing operating conditions extends to August

Summary

Brazilian manufacturing business conditions continued to deteriorate in August, with further declines in output and new orders reported by monitored companies. With rates of contraction softening since July, the PMI increased during the latest month to signal a marginal deterioration overall. The reduction in new work intakes led firms to reduce payroll numbers further.

August's seasonally adjusted HSBC Brazil Purchasing Managers' Index™ (PMI™) rose from 48.5 in July to 49.4, indicating a further, albeit slower, deterioration of operating conditions across the country.

Output in the Brazilian manufacturing sector fell for the second successive month in August, amid evidence of lower volumes of incoming new work. That said, the rate of contraction eased to a marginal pace. Decreases were recorded in both the investment and intermediate goods sectors, while consumer goods producers continued to signal growth.

Lower levels of new orders have now been recorded for two consecutive months, with the latest survey pointing to a marginal and slower pace of contraction. Those panel members indicating falling volumes of incoming new work reasoned that this was due to weaker demand and increased competition from Chinese manufacturers. Order book volumes fell at both intermediate and capital goods producers, while manufacturers of consumer goods signalled growth. Export business fell again in August, in part reflecting weaker demand from Argentinian and European clients. Meanwhile, purchasing activity contracted slightly in August.

Falling new order intakes contributed to a further depletion of unfinished business levels, one that was the fastest since November 2012. Faced with spare capacity and fewer projects, Brazilian manufacturers reduced their workforce numbers in August. The latest decline in employment was moderate and the fifth in successive months. Sector data highlighted job losses across all three monitored categories, with the fastest drop noted at capital goods producers.

Amid reports of a continued depreciation of the Brazilian real against the US dollar, manufacturers' cost burdens rose at the sharpest rate in almost five years during August. Correspondingly, average selling prices were raised further. The rate of charge inflation remained robust, but eased from July's five-year peak as competitive pressures persisted.

August data highlighted another contraction of stock holdings in the Brazilian goods-producing sector. Inventories of raw materials and semi-manufactured goods were depleted at a slight, albeit faster pace. Post-production stocks also fell slightly, and at a broadly similar rate to that recorded one month previously.

Comment

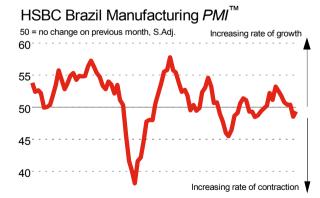
Commenting on the Brazil Manufacturing PMI™ survey. Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI ended August at 49.4 - an improvement compared with 48.5 in July, but still indicated a contraction in economic activity in the manufacturing sector. Both output and new orders continued to contract, but at slower rates than in July. Firms reported that input prices rose at the fastest pace since October 2008, reflecting the impact of the BRL depreciation and although output prices rose at a slightly slower pace than in July, it was still the second highest monthly rate since October 2008 - highlighting upside risks to inflation."

Key points

- PMI rises to 49.4, but remains in contraction territory
- Output falls at marginal and slower pace
- Incoming new work declines and firms reduce workforce numbers

Historical Overview



35 2006 2007 2008 2009 2010 2011 2012 2013 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

 $Constant in \ Jancso, \ Senior \ Economist, \ HSBC \ Bank \ Brazil$

Telephone +55-11-3371-8183

Email constantin.c.jancso@hsbc.com.br

Chrystiane Silva, Press Officer, HSBC Bank Brazil

Telephone +55-11-3847-9339

Email chrystiane.m.silva@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 <u>caroline.lumley@markit.com</u>

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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