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HSBC Brazil Manufacturing PMI™

Output falls only marginally in December

Key findings:

- Production decreases at weakest rate in current seven-month period of decline
- Solid rate of iob losses
- Rate of input price inflation quickens to six-month high

Brazilian manufacturing sector business conditions deteriorated further in December, as signalled by the HSBC Brazil Manufacturing *PMITM* posting below the 50.0 no-change mark that separates growth from contraction. The latest deterioration mainly reflected further declines in new orders and employment. That said, the rate of reduction in new work eased since November. Overall, the deterioration in business conditions in December was only modest.

The HSBC PMI – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing sector – posted 49.1 in December and signalled a modest deterioration in business conditions in Brazil's manufacturing sector. However, up from 48.7 in November, the latest deterioration was the weakest in the current seven-month period of decline.

Brazilian manufacturers largely attributed the deterioration to weak client demand. Correspondingly, the volume of new orders received in December fell for the ninth consecutive month. Incoming new work from abroad also fell during the latest survey period. Overall, the rate of decrease in new orders was modest, and the slowest in seven months.

Reflective of lower new orders, firms reduced production in December. However, the overall fall in output was negligible and the weakest in the current seven-month period of decline.

Stocks of finished goods were also broadly unchanged, while backlogs were reduced for the ninth month running.

Panellists reduced the amount of inputs bought during the latest survey period. Subsequently, input inventories fell for the seventh consecutive month. Anecdotal evidence largely linked the fall in purchasing activity to lower production requirements. Meanwhile, suppliers' delivery times quickened during December, in contrast to the slight lengthening registered in November.

Job losses were recorded in Brazil's manufacturing sector in December. Approximately 6% of respondents reduced their workforces (while less than 2% hired additional staff), with employment falling at a solid pace overall. Panellists generally attributed lower staffing levels to declining sales in December.

Input costs faced by Brazilian manufacturers rose solidly during the latest survey period. Moreover, the rate of input price inflation strengthened in December to a six-month high. Panellists particularly mentioned plastics and food as having increased in price.

Meanwhile, factory-gate prices also increased in December, in contrast to the reduction registered in November. Output charges rose modestly overall, with the rate of inflation the fastest since August.



The HSBC Brazil *Purchasing Managers' Index (PMI)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining, above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*" and *PMI*" are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

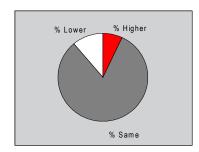




Output Index

Q. Please compare your production/output this month with the situation one month ago.



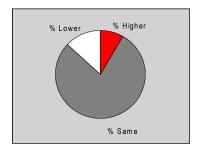


Brazilian manufacturers reduced output for the seventh consecutive month in December. Approximately 11% of surveyed firms reported lower production, compared with 7% that registered an increase. Declines were generally linked to weak client demand. That said, the overall fall in output was negligible and the weakest in the current period of decline.

New Orders Index

Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.

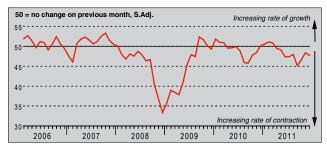


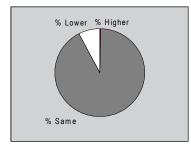


Incoming new work decreased further during December, continuing the trend that has been registered in each month since April. Anecdotal evidence provided by panellists attributed the fall in new order volumes to lower client demand. Nonetheless, the latest fall in new work intakes was only modest and the slowest in seven months.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.



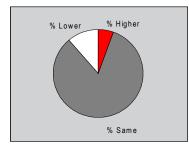


The volume of new export orders received by Brazilian manufacturing companies decreased for the ninth consecutive month in December. Almost 8% of respondents reported lower new work intakes from abroad, while less than 1% registered an increase. Subsequently, the rate of decline strengthened since November to a solid pace, and was greater than the long-run series average.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

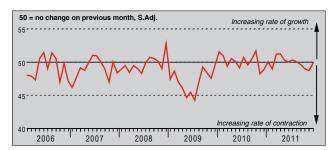


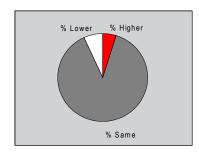


Outstanding business at firms operating in Brazil's manufacturing sector fell further during December. Lower work-in-hand has been registered in each survey period since April. Monitored companies largely linked the latest decline in backlogs to lower new order volumes. Overall, the rate of decrease was solid, albeit the weakest in seven months.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

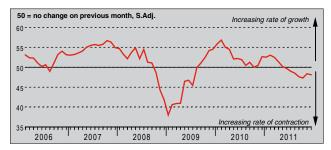


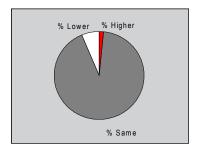


Brazilian manufacturers depleted stocks of finished goods on average for the fourth consecutive month in December. A number of respondents commented on lower client demand and leaner stock holding policies which were recently introduced. However, the latest reduction in inventories was negligible, as signalled by the seasonally adjusted Stocks of Finished Goods Index posting only marginally below the 50.0 no-change threshold.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.



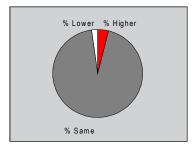


The number of people employed in Brazil's manufacturing sector decreased further in December. Job losses have been registered in each month since June. Over 6% of panellists reduced their workforces during the latest survey period (while less than 2% hired additional staff), with the overall rate of contraction faster than that registered in November. Anecdotal evidence generally attributed the fall in employment to lower new orders.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



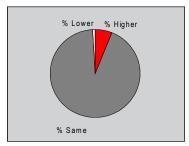


In contrast to the reduction registered in November, average selling prices increased in December. This was indicated by the seasonally adjusted Output Prices Index posting above the 50.0 no-change mark that separates inflation from deflation. Brazilian manufacturing firms generally raised their charges to pass on larger cost burdens to clients. Though modest overall, the rate of output price inflation was the fastest since August.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



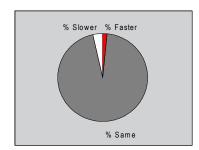


Input costs faced by Brazilian manufacturers increased in December, extending the current period of inflation to 28 months. Plastics and food were particularly mentioned as having increased in price during the latest survey period. Moreover, the rate of input price inflation was solid and the strongest since June.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

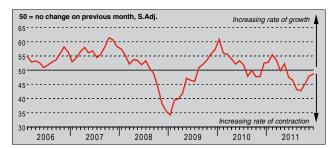


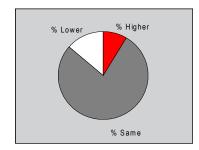


Following the slight increase registered in November, lead times on inputs decreased during December. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index posting above the 50.0 no-change mark that separates an improvement from a deterioration in vendor performance. However, the index indicated only a slight overall improvement in delivery times during the latest survey period.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



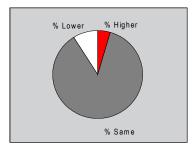


Reflective of lower output, Brazilian manufacturing companies reduced the amount of inputs purchased in December. Approximately 14% of monitored companies cut purchases, while 9% increased their input buying. Subsequently, the rate of decline was solid, albeit the weakest in the current seven-month period of contraction.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Stocks of purchases were depleted for the seventh month running in December. Panellists attributed the latest reduction in inventories to lower production requirements and leaner stock policies which were recently introduced. Although the rate of depletion was solid overall, it was nonetheless weaker than the long-run series average and the slowest since August.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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.

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