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HSBC Brazil Manufacturing PMI™

Output growth strengthens to ten-month high in March

Key findings:

- Further increases in both output and new orders
- New export work falls for twelfth consecutive month
- · Rate of job creation slows to marginal pace

March data signalled a further improvement in Brazilian manufacturing business conditions. Both output and new orders increased modestly, with growth the strongest in ten and 12 months respectively. That said, new export orders fell further, as has been the case since April 2011. Concurrently, firms hired additional staff in March, albeit only marginally, while the rate of input price inflation remained solid.

After adjusting for seasonal variation, the HSBC Brazil Purchasing Managers' IndexTM $(PM)^{TM}$ — a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy — posted above the 50.0 no-change mark that separates growth from contraction for the third consecutive month in March. At 51.1, down from 51.4 in February, the PMI signalled a modest, albeit weaker improvement in Brazilian manufacturing business conditions during the latest survey period.

Brazilian manufacturers partly linked the latest improvement in operating conditions to greater client demand. Incoming new work rose modestly and for the third month running in March. However, higher domestic new orders masked a decline in new export work. Lower volumes of new export orders have been reported in each of the past 12 months, with firms largely attributing the latest fall to weakness in the global economy.

Reflective of the rise in total new orders, firms stepped up production in March. Approximately 19% of survey respondents

reported an increase in output (while 10% registered a decline), with growth the strongest since May 2011 overall. Meanwhile, backlogs of work were accumulated for the second consecutive month in March.

The amount of inputs purchased by Brazilian manufacturing firms increased in March, with a number of monitored companies citing larger production requirements. Concurrently, suppliers' delivery times lengthened for the fourth time in five months. However, the latest increase in lead times was only marginal, and at the slowest pace in 2012 so far.

Stocks of both finished and pre-production goods were depleted during the latest survey period. Anecdotal evidence provided by panellists largely linked inventory reductions to leaner stockholding policies in March.

Employment in Brazil's manufacturing sector increased in March. That said, job creation was only marginal and weaker than that registered in February. Where an increase in headcounts was reported, firms commented on larger production requirements.

Monitored companies reported a further rise in input costs during the latest survey period. Panellists particularly mentioned higher raw material prices and unfavourable exchange rates as the main contributors to the overall rise in costs. Meanwhile, firms raised their selling prices in March. Although factory gate prices rose only slightly since February, this was nonetheless the first price increase in three months.



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.

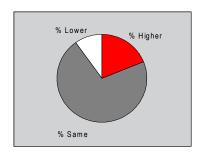




Output Index

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



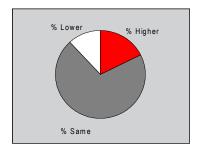


After adjusting for seasonal variation, production at Brazilian manufacturing companies increased for the third consecutive month in March. Survey respondents who reported higher output (approximately 19%) largely linked this to greater client demand. Overall, production grew solidly over the month, with the latest expansion the strongest since May 2011.

New Orders Index

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

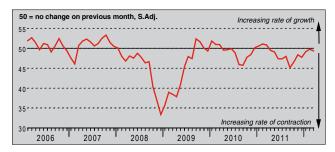


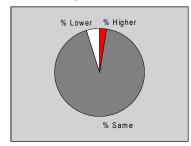


Brazilian manufacturers received a larger volume of new work in March, as signalled by the seasonally adjusted New Orders Index registering above the 50.0 no-change mark. Incoming new work has increased in each of the past three months, with the latest rise modest and the strongest for a year. Panellists generally cited greater client demand during the latest survey period.

New Export Orders Index

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

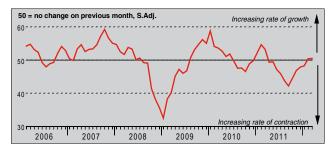




The volume of new export orders placed at Brazilian manufacturers fell further during March. Lower new work intakes from abroad have declined in each month since April 2011. Anecdotal evidence attributed the latest reduction in new export orders to ongoing weakness in the global economy. Although incoming new work from abroad fell only marginally in March, the rate of decline quickened since February as indicated by a fall in the seasonally adjusted New Export Orders Index.

Backlogs of Work Index

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

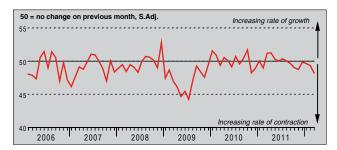


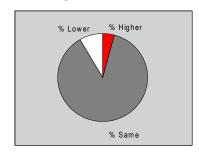


Backlogs of work at Brazilian manufacturing firms increased for the second month running in March. Approximately 13% of monitored companies accumulated outstanding business during the latest survey period, and generally commented on recent new order growth. Although work-in-hand increased only marginally since February, it was nonetheless the strongest rise in 12 months.

Stocks of Finished Goods Index

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



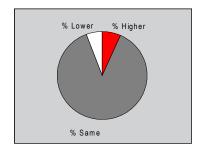


Holdings of post-production goods by Brazilian manufacturing companies fell for the seventh consecutive month in March. Moreover, the latest depletion of stocks of finished goods was at the fastest rate in this sequence of decline. Anecdotal evidence provided by panellists suggested that the latest round of inventory reductions generally reflected leaner stock-holding policies in March.

Employment Index

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



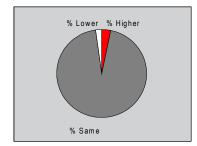


Latest PMI data signalled that employment in Brazil's manufacturing sector increased for the third month running in March. Approximately 7% of survey respondents hired additional staff since February, with larger production requirements often cited by panellists. Nonetheless, the rate of job creation slowed to only a marginal pace and was weaker than the long-run series average.

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.



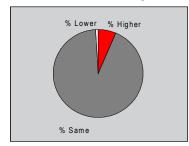


In contrast to the previous two months of price reductions, the average price charged for finished goods by Brazilian manufacturers increased in March. However, factory gate prices rose only marginally since February. Monitored companies that raised their output charges during the latest survey period generally commented on passing greater cost burdens on to clients.

Input Prices Index

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



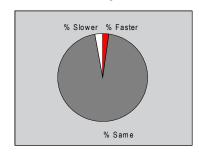


The seasonally adjusted Input Prices Index posted above the neutral 50.0 mark in March, signalling a further rise in input costs. Panellists commented that higher raw material prices and unfavourable exchange rates contributed to the overall rise in cost burdens. Despite slowing slightly from that registered in February, the rate of input price inflation remained solid in March.

Suppliers' Delivery Times Index

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



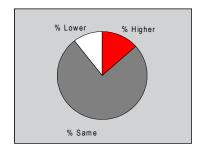


Suppliers' delivery times lengthened for the third successive month in March. Respondents suggested that vendors were working with larger backlogs of work during the latest survey period. That said, the latest increase in lead times was only marginal, with the vast majority of panellists (approximately 95%) reporting no-change in delivery times since February.

Quantity of Purchases Index

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



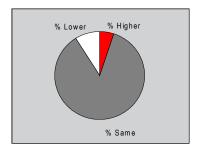


Following the same trend that was reported in February, the amount of inputs bought by Brazilian manufacturers increased in March. Firms generally attributed the rise in buying activity to larger production requirements. Overall, purchases rose modestly in March, with growth broadly similar to that registered in the previous survey period.

Stocks of Purchases Index

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





Input inventories were depleted by manufacturing firms working in Brazil during March. Lower stocks of purchases have been reported in each of the past ten months, with the latest decline solid and the strongest since last November. Monitored companies that reported a reduction in inventories of pre-production goods largely linked this to leaner stock-holding policies.

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 $^{-\infty}$ (PMI $^{-\infty}$) 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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