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HSBC Brazil Manufacturing PMI™

Both output and new orders fall for first time in 2012 so far

Key findings:

- · Modest declines in both production and new work intakes
- Lower staffing levels in April, but rate of job losses only marginal
- · HSBC Brazil PMI below 50.0 no-change mark, signalling deterioration in business conditions

April data indicated that both output and new orders at Brazilian manufacturers fell from March, with firms generally citing weaker client demand. The rates of decline were modest, but nonetheless the strongest in six and five months respectively. Concurrently, Brazilian manufacturers reduced their workforces in April, albeit marginally, while the rate of input price inflation strengthened since March to a four-month high.

After adjusting for seasonal variation, the HSBC Brazil Purchasing Managers' Index $^{\text{TM}}$ (PMI^{TM}) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – registered below the 50.0 no-change threshold that separates growth from contraction in April. At 49.3, the PMI signalled the first deterioration in manufacturing operating conditions in 2012 so far. Moreover, down from 51.1, in March, the PMI was below the historic trend for the series, and suggested a modest deterioration in business conditions during April.

Brazilian manufacturing firms partly linked the deterioration in manufacturing business conditions to weaker client demand. Approximately 13% of surveyed firms received lower new work intakes in April, with the overall rate of decline moderate and the strongest since last November. New export orders also decreased during the latest survey period, as has been the case since April 2011, with a number of panellists attributing this to ongoing weakness in the global economy.

In contrast to the increases reported in each of the past three months, output at Brazilian manufacturing firms declined in April. Although production fell only modestly, the latest reduction was nonetheless the strongest in six months. Holdings of post-production goods also fell in April, but the rate of stock depletion eased since March. Meanwhile, backlogs of work decreased during the latest survey period, with firms largely citing recent productivity improvements.

Reflective of lower production, the amount of inputs bought by Brazilian manufacturers decreased modestly in April. Stocks of purchases were also depleted for the eleventh consecutive month. Despite this, suppliers' delivery times lengthened further and to the greatest extent since June 2011.

Job losses were reported in Brazil's manufacturing sector in April, ending a three-month period of job creation. That said, staffing levels fell only marginally. Where lower headcounts were recorded, firms generally cited declines in new orders.

Input costs faced by Brazilian manufacturers increased further during April, with raw materials such as steel and resin particularly mentioned by panellists as having increased in price. The rate of input price inflation was solid, and the strongest in 2012 so far. Firms generally passed on greater cost burdens to clients by raising their output charges in April. Selling prices increased at the strongest pace in nearly a year, but nevertheless this was to a lesser extent than the rise in input costs.



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.

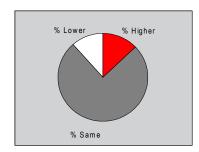




Output Index

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



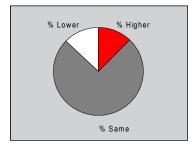


The seasonally adjusted Output Index registered below the 50.0 no-change threshold in April, signalling a reduction in output at Brazilian manufacturers. Approximately 12% of surveyed firms reported lower production compared with one month earlier, and generally attributed decreases to weaker client demand. Although the rate of decline was only modest, the index fell approximately three points from March to a six-month low.

New Orders Index

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

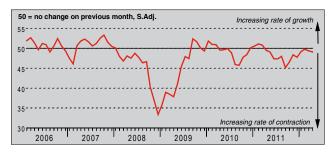


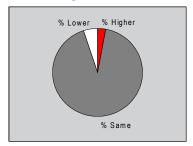


For the first time in 2012 so far, Brazilian manufacturers received a lower volume of new orders in April. Notably, new work intakes fell moderately from one month earlier, with the rate of contraction the strongest since last November. Monitored companies that reported a reduction in new orders (approximately 13%) largely commented on weaker 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.





Brazilian manufacturing firms reported a further reduction in new export orders in April, as signalled by the seasonally adjusted New Export Orders Index remaining below the 50.0 no-change mark. New work intakes from abroad have declined in each month since April 2011, with a number of panellists linking the latest reduction to ongoing weakness in the global economy. The index fell slightly from that registered in March, and suggested that the rate of contraction was the strongest in 2012 so far.

Backlogs of Work Index

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



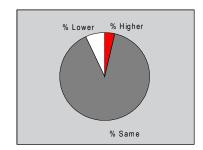


In contrast to the previous two months of backlog accumulation, outstanding business at Brazilian manufacturers declined in April. Moreover, the rate of decrease was solid, and the strongest in five months. Approximately 6% of firms reported a reduction in work-in-hand during the latest survey period (while less than 2% registered an increase), with a number of monitored companies linking declines to improved productivity.

Stocks of Finished Goods Index

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



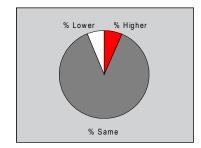


Continuing the trend that has been registered in each month since last September, holdings of finished goods at Brazilian manufacturing companies fell further in April. Anecdotal evidence provided by panellists suggested that stocks of finished goods were depleted as both new orders and output declined during the latest survey period. Although inventories of post-production goods fell modestly over the month, the latest depletion was weaker than that registered in March.

Employment Index

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

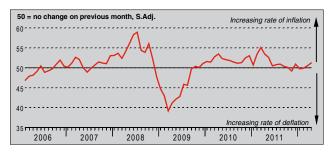


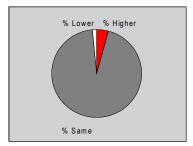


Reflective of the decline in new orders, Brazilian manufacturers reduced their workforces in April. This was signalled by the seasonally adjusted Employment Index registering below the 50.0 no-change mark that separates job creation from losses. That said, the decline in manufacturing employment was only marginal, with the index only slightly below the neutral 50.0 threshold.

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.



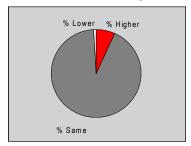


The average selling price charged by Brazilian manufacturing companies increased for the second consecutive month in April. Where higher factory gate prices were reported, firms generally commented that greater cost burdens were passed on to clients during the latest survey period. Although modest, the rate of output price inflation strengthened since March, as indicated by a higher seasonally adjusted Output Prices Index, and was the fastest in nearly a year.

Input Prices Index

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



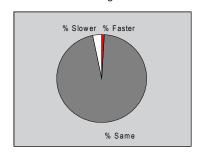


Input costs faced by Brazilian manufacturing firms increased further in April, extending the current period of input price inflation to 32 months. Raw materials such as steel and resin were particularly mentioned by panellists as having increased in price, while a number of monitored companies also commented on unfavourable exchange rates contributing to the overall rise in costs. Overall, input prices rose solidly over the month, with the latest increase the strongest in 2012 so far.

Suppliers' Delivery Times Index

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



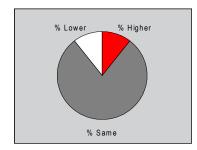


Lead times on inputs lengthened for the fourth consecutive month in April, as signalled by the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 no-change mark. Moreover, having declined from March to a ten-month low, the index suggested that the latest deterioration in vendor performance was solid overall.

Quantity of Purchases Index

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



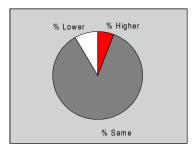


The amount of inputs bought by Brazilian manufacturers declined in April, after increasing in each of the past two months. Purchasing activity fell modestly from that reported in March, with the rate of decline the strongest in 2012 so far. Where a reduction in the quantity of inputs purchased was reported, monitored companies largely attributed this to lower production requirements.

Stocks of Purchases Index

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





Brazilian manufacturers reduced their input inventories in April, extending the current period of stock depletion to 11 months. The latest decline in stocks of purchases was only marginal, however, and the weakest since last August. Where a reduction in holdings of pre-production goods was reported, firms generally attributed this to lower new order volumes.

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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