HSBC Brazil Manufacturing PMI™

Further declines in both output and new orders during May

Key findings:

- Modest fall in incoming new work, with rate of contraction weaker than in April
- Job losses for second consecutive month
- Rate of input price inflation at 11-month high

May data signalled a second monthly decline in both output and new orders at Brazilian manufacturers. Firms generally attributed this to weak client demand. Nevertheless, the rates of contractions were only modest, and weaker than those registered in April. Concurrently, job losses were also reported during May, while the rates of input and output price inflation strengthened to 11- and 12-month highs respectively.

After adjusting for seasonal variation, the HSBC Brazil *Purchasing Managers' Index*™ (*PMI*™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted below the 50.0 no-change level for the second month running in May. Nevertheless, at 49.3, unchanged from that registered in April, the PMI was only slightly below this threshold and signalled only a modest deterioration in Brazilian manufacturing business conditions.

Firms working in Brazil's manufacturing sector generally linked the deterioration in operating conditions to weak client demand. The volume of new orders received by monitored companies fell for the second consecutive month in May, albeit the decline was only modest and to a lesser extent than in April. Meanwhile, new export orders also fell during May, with the rate of decline solid and the strongest in 2012 to date. Lower new export work has been reported by panellists in each of the past 14 months.

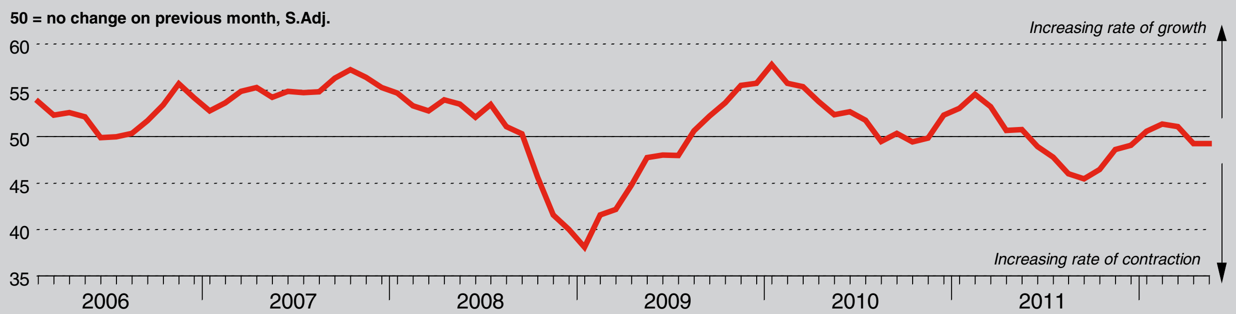
Reflective of lower new order volumes, Brazilian manufacturers reduced their output further in May. Production fell modestly, and at a rate broadly similar to that registered in the previous survey period. Monitored companies also reduced their finished goods inventories for the ninth consecutive month, while the level of outstanding business fell solidly since April.

The quantity of inputs bought by Brazilian manufacturing firms decreased in May. The decline in purchases was solid and to the greatest extent since October 2011. Inventories of pre-production goods also fell during the latest survey period, taking the current period of stock depletion to 12 months. Concurrently, suppliers' delivery times lengthened further. However, the latest increase in lead times was only marginal, with the corresponding index above its long-run series average.

Job losses were reported in Brazil's manufacturing sector for the second successive month in May. Panellists that reduced their workforces generally commented on lower production requirements. That said, staffing levels fell only marginally in May, with the rate of decline having eased since April.

Input costs faced by firms rose further in May, with higher raw material prices and unfavourable exchange rates contributing to the overall increase. Although the rate of input price inflation was the strongest in 11 months, it nonetheless remained weaker than the long-run series average. Firms passed on larger cost burdens to clients by raising their selling prices. Nevertheless, the latest increase in output charges was only modest, despite being the strongest monthly rise in a year.

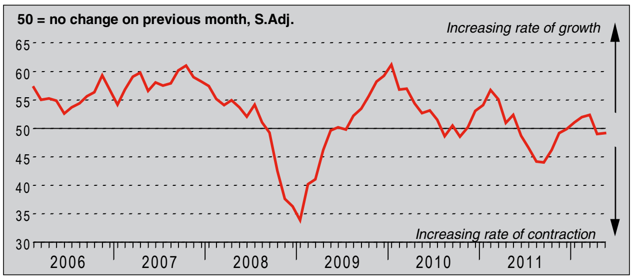
HSBC Brazil *Purchasing Managers' Index*™ (*PMI*™)

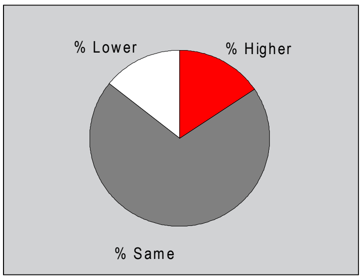


The HSBC Brazil *Purchasing Managers' Index* (*PMI*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

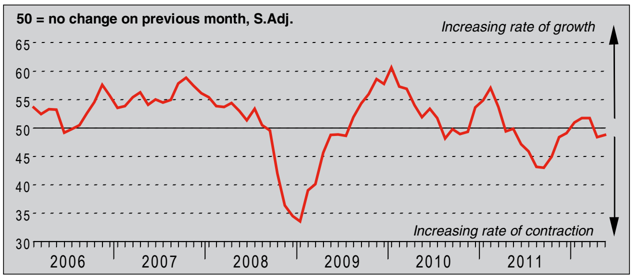


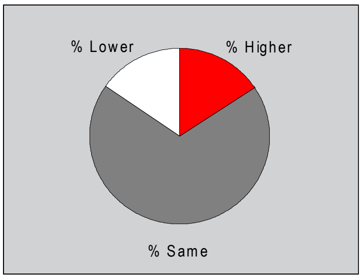


After adjusting for seasonal variation, manufacturing output in Brazil fell for the second consecutive month in May. Monitored companies that reported lower production (approximately 14%) largely linked this to a fall in incoming new work. That said, output fell only modestly over the month, with the rate of decrease broadly unchanged from that registered in April.

New Orders Index

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

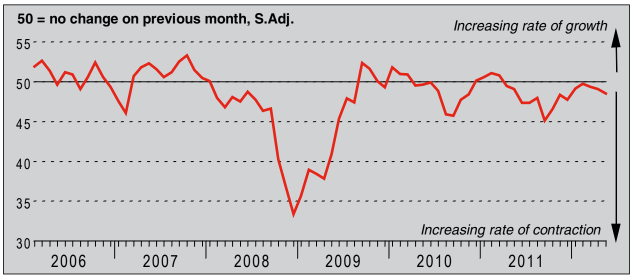


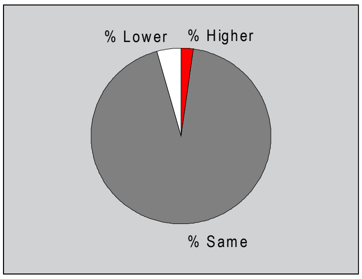


The volume of new orders received by Brazilian manufacturers declined further in May, as indicated by the seasonally adjusted New Orders Index remaining below the 50.0 no-change mark that separates growth from contraction. Anecdotal evidence provided by panellists attributed the decline to weak client demand. However, the index signalled only a modest fall in new orders in May, with the rate of decline having slowed since April.

New Export Orders Index

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

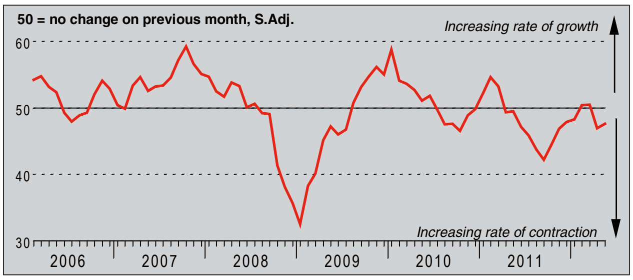


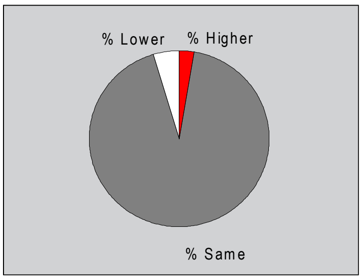


Continuing the trend that has been registered in each month since April 2011, the volume of new export orders received by companies working in Brazil's manufacturing sector fell during May. Moreover, the contraction in incoming new work from abroad was solid, with the rate of decrease the strongest in 2012 to date. A number of respondents commented on ongoing weakness in the global economy during the latest survey period.

Backlogs of Work Index

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

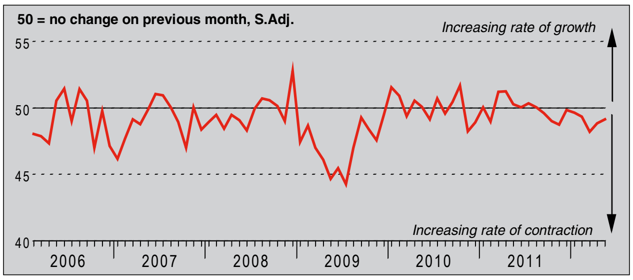


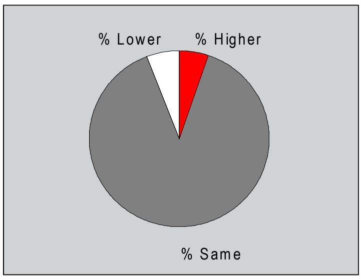


Outstanding business at Brazilian manufacturing companies fell for the second consecutive month in May. Approximately 5% of surveyed firms reported a reduction in work-in-hand compared with one month earlier, while almost 3% registered an increase in backlogs of work. Overall, outstanding business fell at a solid pace in May, albeit to a lesser degree than in April.

Stocks of Finished Goods Index

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

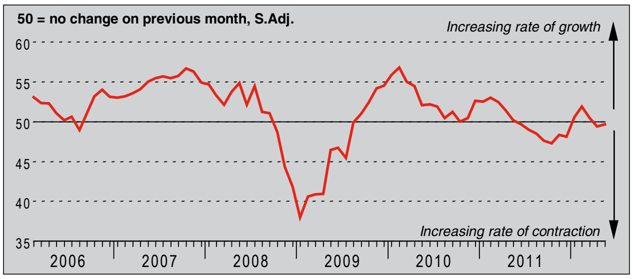


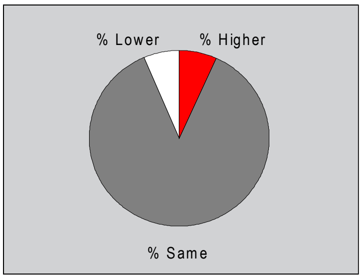


Monitored companies held a lower amount of finished goods as stock in May, taking the current period of inventory depletion to nine months. Respondents generally attributed the reductions in stocks of finished goods to lower production during the latest survey period. That said, the latest decline in inventories of post-production goods was only modest, with the seasonally adjusted Stocks of Finished Goods Index at a three-month high.

Employment Index

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

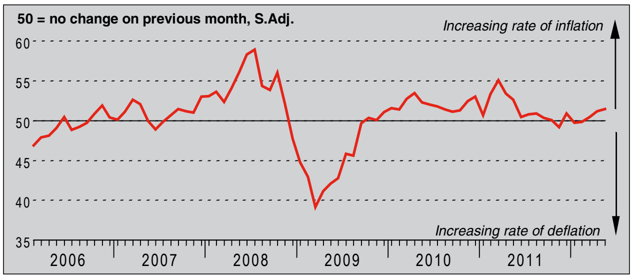


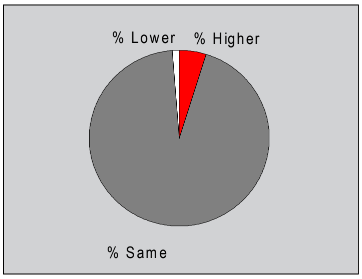


Continuing the trend that was also registered in April, employment in Brazil's manufacturing sector fell further during May. This was indicated by the seasonally adjusted Employment Index posting below the 50.0 no-change threshold. Nonetheless, the index was only slightly below the neutral level in May, suggesting that the rate of job losses was only marginal overall. Panellists that reduced their workforces generally cited lower production requirements.

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.

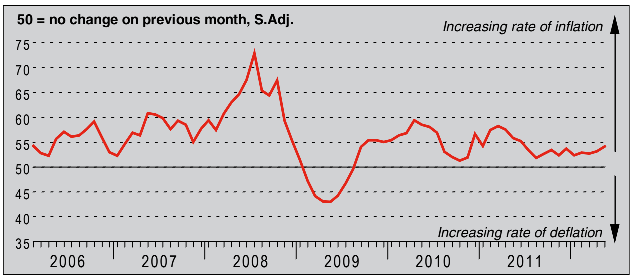


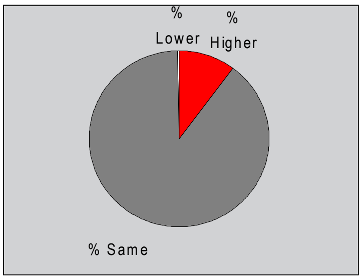


Brazilian manufacturers raised their factory gate prices for the third consecutive month in May. Approximately 5% of firms increased their selling prices during the latest survey period (while only 1% reduced their output charges), with a number of panellists commenting that larger cost burdens were passed on to clients. Moreover, the rate of output price inflation was modest, stronger than the long-run series average and the fastest since May 2011.

Input Prices Index

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

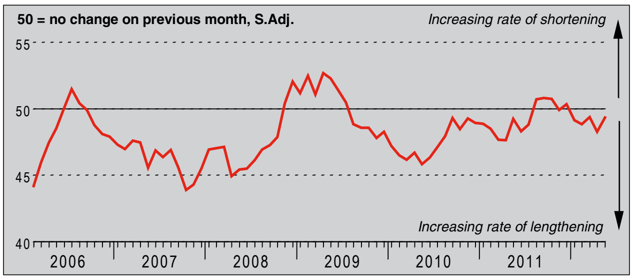


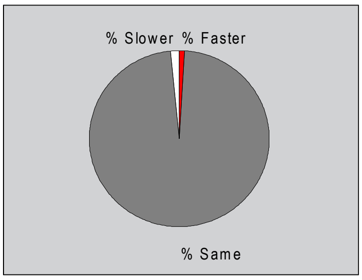


Input costs faced by Brazilian manufacturers increased solidly during May, with raw materials particularly mentioned by firms as having increased in price since April. Moreover, a number of monitored companies also commented that unfavourable exchange rates also contributed to the overall rise in cost burdens during May. The rate of input price inflation was solid and the strongest in 11 months, but nonetheless remained slower than the long-run series average.

Suppliers' Delivery Times Index

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

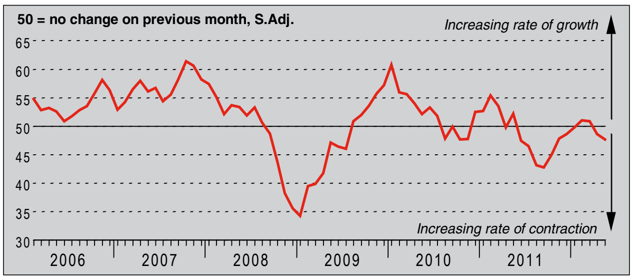


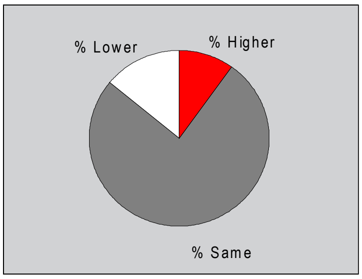


The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in May, signalling a further lengthening of lead times. Delivery times have increased in each of the past five consecutive months. That said, May's index reading was higher than that recorded for April, indicating a weaker deterioration in vendor performance, and was above the long-run series average.

Quantity of Purchases Index

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

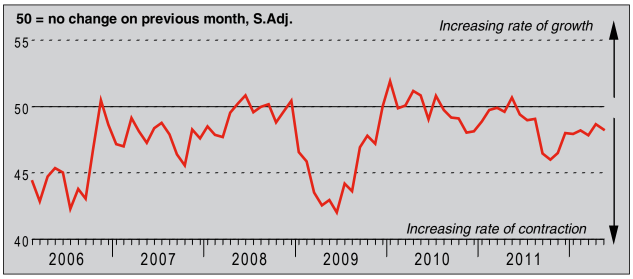


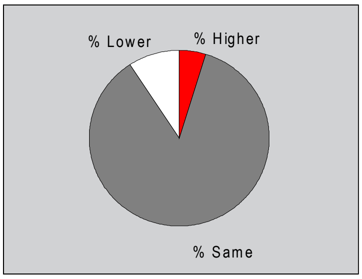


The quantity of inputs purchased by Brazilian manufacturers fell for the second month running in May. Exactly 14% of firms reduced their purchases over the month, with a number of companies attributing this to lower production requirements. Overall, the amount of inputs bought by survey respondents fell solidly since April, with the rate of decline the strongest in seven months.

Stocks of Purchases Index

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





Input inventories at Brazilian manufacturing companies declined further in May. Lower stocks of purchases have been reported in each month since June 2011, with the latest reduction solid and to a greater extent than in April. Firms that reported a decline in inventories of pre-production goods (approximately 9%) generally linked this to recent falls in output.

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.

Warning