Embargoed until: 10:00 (SAO PAULO), 2 July 2012

HSBC Brazil Manufacturing PMI™

Output and new orders both decline at strongest rates in eight months

Key findings:

- · Modest reductions in both output and new orders in June
- Job losses reported for third month running
- PMI signals strongest deterioration in manufacturing business conditions since October 2011

June data indicated a further deterioration in manufacturing business conditions in Brazil. Both output and new orders fell over the month, with the rates of contraction the strongest in eight months. Manufacturers generally commented on weak client demand. Concurrently, job losses were reported for the third month running, while the rate of input price inflation eased from May's 11-month high, albeit marginally.

After adjusting for seasonal variation, the HSBC Brazil $Purchasing\ Managers'\ Index^{TM}\ (PMI^{TM})$ – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – remained below the 50.0 nochange threshold in June. At 48.5, down from 49.3 in May, the index was at an eight-month low and signalled a modest deterioration in business conditions. Moreover, the average PMI reading of 49.0 for the second quarter as a whole contrasted with a reading of 51.0 for Q1.

Brazilian manufacturers received a lower volume of new orders in June, with firms generally citing weak client demand. New export orders also fell over the month, continuing the trend that has been registered since April 2011. Overall, total new orders fell modestly over the month, with the rate of contraction the strongest since last October.

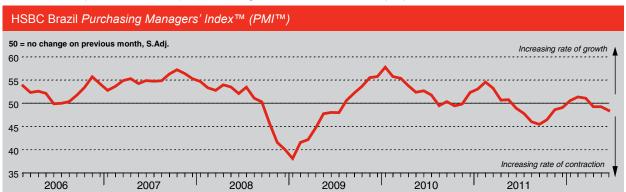
Reflective of lower new order requirements, firms reduced their output during June. Approximately 16% of monitored companies recorded lower production levels (while 14% registered an

increase), with the overall decline the fastest in eight months. Stocks of finished goods meanwhile were depleted for the tenth consecutive month, albeit marginally, and backlogs of work fell further during the latest survey period.

Firms bought a lower quantity of inputs for the third consecutive month in June. Inventories of pre-production goods also fell, taking the current period of stock depletion to 13 months. Where buying activity declined, panellists largely attributed this to lower production requirements. Nonetheless, suppliers' delivery times lengthened further in June, but the latest increase in lead times was only slight, with the corresponding index only marginally below the 50.0 no-change threshold.

Job losses were reported for the third straight month in June, with approximately 9% of manufacturers reducing their workforces from May. Overall, employment fell solidly over the month, and to the greatest extent since October 2011.

Continuing the trend that has been registered in each month since September 2009, input costs faced by Brazilian manufacturers increased in June. Higher raw material prices and exchange rate fluctuations were generally commented on as having contributed to the overall rise in cost burdens. Firms passed parts of the increase in costs to clients by raising their selling prices. Although output charges rose at the fastest pace since May 2011, it nonetheless remained weaker than the increase in input prices.



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.

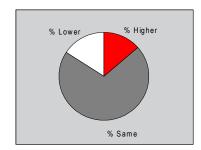




Output Index

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



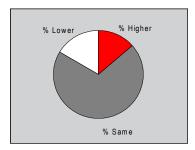


Brazilian manufacturing output fell for the third consecutive month in June, as indicated by the seasonally adjusted Output Index remaining below the 50.0 no-change threshold. Approximately 16% of surveyed firms reported lower production over the month, with weaker client demand often cited by monitored companies. Overall, the rate of contraction strengthened since May to its fastest pace in eight months.

New Orders Index

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

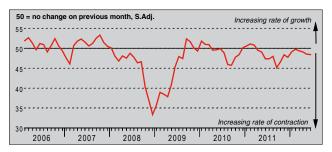


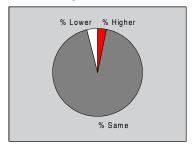


After adjusting for seasonal variation, the volume of new orders received by Brazilian manufacturing firms declined in June. Incoming new work has fallen in each of the past three months, with the latest reduction the greatest in this sequence and the sharpest since last October. Companies that reported a lower volume of new orders compared with one month previously (approximately 17%) generally linked the decline to weak client demand.

New Export Orders Index

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



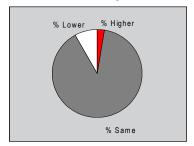


Continuing the trend that has been registered in each month since April 2011, the volume of new export orders placed at Brazilian manufacturers fell further during June. A number of survey respondents commented on weakness in the global economy, while other panellists also mentioned that Brazilian manufactured goods were uncompetitive due to exchange rate fluctuations. New work intakes from abroad fell modestly in June, with the rate of contraction unchanged from that recorded in May.

Backlogs of Work Index

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



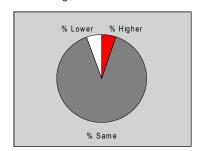


The seasonally adjusted Backlogs of Work Index registered below the 50.0 no-change mark in June, signalling a reduction of outstanding business at Brazilian manufacturers. Work-in-hand (but not yet completed) has declined in each of the past three months, with a number of respondents linking the latest reduction to recent productivity improvements. Moreover, having fallen from that registered in May, the index suggested a stronger rate of contraction in June.

Stocks of Finished Goods Index

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



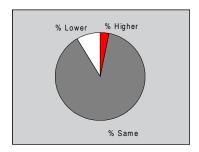


Firms reported a further reduction in finished goods inventories during June, taking the current period of stock depletion to ten months. Where lower holdings of post-production goods were reported, companies generally commented on lower output. That said, the latest decline in stocks of finished goods was only marginal, with the vast majority of panellists (almost 90%) reporting no change in inventory levels from one month previously.

Employment Index

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

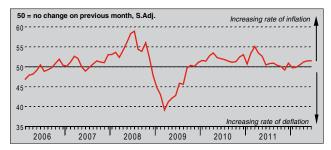


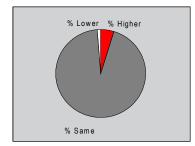


Employment in Brazil's manufacturing sector fell for the third consecutive month in June, as indicated by the seasonally adjusted Employment Index posting below the 50.0 no-change level that separates job creation from losses. Approximately 9% of surveyed firms reduced their workforces during the latest survey period, with panellists generally attributing this to recent declines in new orders. Overall, the latest reduction in staffing levels was solid, with the corresponding index at an eight-month low.

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.



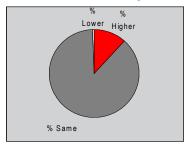


Following the trend that has been registered in each month since March, the average price charged by Brazilian manufacturers increased in June. Anecdotal evidence provided by panellists suggested that the increase in selling prices reflected higher raw material costs and movements in the exchange rate. Although the rate of output price inflation quickened only slightly since the previous survey period, it was nonetheless the strongest 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.



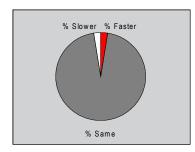


Input costs faced by Brazilian manufacturing firms rose further in June, continuing the current period of input price inflation that began in September 2009. Raw materials such as oil and oil-related products were particularly mentioned by panellists as contributing to larger cost burdens, while a number of respondents also commented on exchange rate fluctuations. Although input prices rose at a solid pace in June, the latest increase was to a lesser extent than in May and weaker 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.



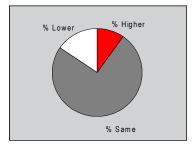


The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in June, suggesting a further deterioration in vendor performance. Lead times on inputs have lengthened in each month of 2012 so far. However, with the latest index reading only slightly below the neutral threshold, delivery times increased only marginally 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.



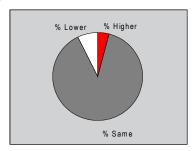


Reflective of lower production requirements, the quantity of inputs bought by Brazilian manufacturers fell for the third month running in June. Approximately 16% of firms purchased a lower amount of pre-production goods during the latest survey period, while almost 10% increased their buying activity. Overall, the reduction in quantity of purchases was solid and the fastest in eight 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 in June. Firms that reduced their holdings of pre-production goods (approximately 7%) generally linked this to lower production requirements. Although stocks of purchases have been depleted in each month since June 2011, the latest reduction was only marginal and the weakest in a year.

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.

Warning

The intellectual property rights to the HSBC Brazil Manufacturing *PMI* provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*" and *PMI*" are trade marks of Markit Economics Limited, HSBC use the above under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.