Embargoed until: 10:00 (SAO PAULO), 1 August 2012

# HSBC Brazil Manufacturing PMI™

Further declines in both output and new orders in July

# Key findings:

- · Modest reductions in both output and new orders, but rates of contraction ease slightly from June
- Staff headcounts fall at fastest rate in three years
- · Weakest increase in input prices since March

July data signalled a further deterioration in manufacturing business conditions in Brazil, with survey respondents largely citing weak client demand. Both output and new orders fell for the fourth month running, albeit at slightly weaker rates than those registered in June, and firms reduced their workforces to the greatest extent in three years. Inflationary pressures meanwhile eased over the month, with the rate of input price inflation having slowed to a four-month low.

After adjusting for seasonal variation, the HSBC Brazil Purchasing Managers' Index  $^{\text{TM}}$  ( $PMI^{\text{TM}}$ ) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted below the 50.0 nochange mark for the fourth consecutive month in July. At 48.7, up only slightly from 48.5 in June, the PMI was the second-lowest in eight months and signalled a modest deterioration in manufacturing business conditions.

Brazilian manufacturers received a lower volume of new work in July, continuing the trend that has been registered in each month since April. Firms that reported a reduction in new orders (approximately 15%) generally linked this to weak client demand. New export orders also fell over the month, as exporters were affected by unfavourable exchange rates. Overall, total new orders fell modestly in July, albeit at a slightly weaker rate than that reported for June.

Reflective of lower new order requirements, monitored

companies reduced their output further during the latest survey period. Although the rate of decline was only modest, production nonetheless fell at the second-strongest pace in nine months. Backlogs of work meanwhile declined further in July, and stocks of finished goods were depleted at the fastest pace since March.

The quantity of inputs bought by Brazilian manufacturers fell moderately during July. Stocks of purchases were also depleted, but the rate of decline was the weakest in the current 14-month sequence. Concurrently, suppliers' delivery times lengthened for the seventh consecutive month in July. Panellists generally commented on transportation delays. The latest deterioration in vendor performance was only marginal, however, with the corresponding index only slightly below the neutral threshold.

Employment in Brazil's manufacturing sector declined for the fourth successive month in July. Approximately 8% of panellists reduced their headcounts from June, with lower new work intakes often cited. Moreover, the latest round of job losses was the strongest in three years.

Firms reported a further increase in input costs during the latest survey period, with raw materials such as food and steel particularly mentioned as having increased in price. However, the rate of input price inflation nonetheless slowed to the weakest in four months. Average selling prices also increased in July, but only marginally.



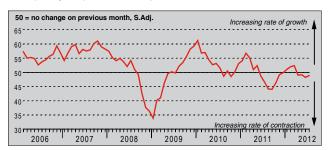
The HSBC Brazil *Purchasing Managers' Index (PMI)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

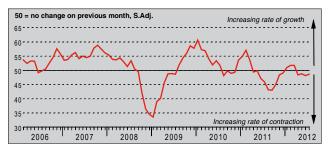


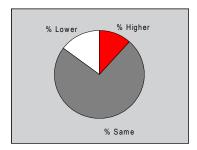


After adjusting for seasonal variation, output at Brazilian manufacturers declined for a fourth successive month in July. A number of monitored companies commented on deteriorating market conditions and recent reductions in new work intakes. Despite the rate of contraction having eased slightly from June, as indicated by a higher seasonally adjusted Output Index reading, production fell at the second-strongest pace in nine months in July.

# New Orders Index

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



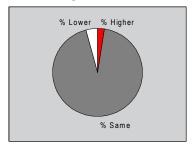


Brazilian manufacturing companies received a lower volume of new orders during July, as signalled by the seasonally adjusted New Orders Index posting below the 50.0 no-change mark. Incoming new work has fallen in each month since April, with the latest rate of contraction modest overall. Approximately 15% of surveyed firms reported a reduction in new work intakes (while 12% recorded an increase), and 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.



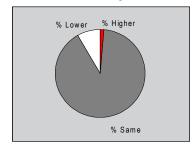


The amount of new export orders placed at firms working in Brazil's manufacturing sector fell for the sixteenth consecutive month in July. Anecdotal evidence provided by panellists generally attributed the latest decline to weak demand in key export markets. A number of monitored companies also commented on unfavourable exchange rates. New export orders fell modestly overall, and at a slightly slower rate than that recorded for both May and June.

# Backlogs of Work Index

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



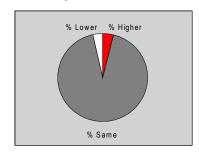


Continuing the trend that has been registered in each of the past four months, outstanding business at monitored companies fell further during July. Approximately 8% of survey respondents reported lower levels of work-in-hand compared with June, while less than 2% recorded an increase. Panellists that reported lower backlogs of work during the latest survey period generally linked this to recent declines in new orders.

# Stocks of Finished Goods Index

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



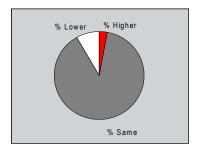


The seasonally adjusted Stocks of Finished Goods Index remained below the 50.0 no-change level in July, indicating a further depletion of inventories of post-production goods. The index has posted below the neutral threshold in each month since September 2011, with the latest reading the lowest in four months. Where a reduction in stocks of finished goods was reported, firms generally cited recent declines in production.

#### **Employment Index**

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



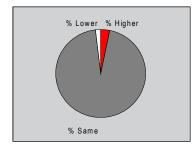


Employment in Brazil's manufacturing sector fell for the fourth consecutive month in July, with approximately 8% of surveyed firms reducing their workforces from June. Anecdotal evidence provided by panellists generally attributed the latest round of job losses to lower new work intakes. Notably, staffing levels fell at the fastest pace in three years during the latest survey period.

# 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.

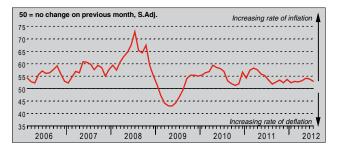


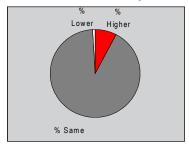


Average selling prices charged by Brazilian manufacturers increased for the fifth consecutive month in July. This was indicated by the seasonally adjusted Output Prices Index recording above the 50.0 no-change mark. However, the index was only marginally above the neutral threshold, suggesting that the latest rise in output charges was only slight. The vast majority of survey respondents (approximately 95%) kept selling prices unchanged from June.

# Input Prices Index

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



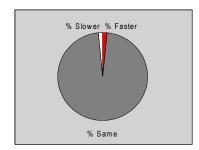


Brazilian manufacturing firms reported a further increase in input prices during July, continuing the trend that has been recorded in each month since September 2009. Raw materials such as food and steel were particularly mentioned as having increased in price from June, while a number of monitored companies also commented that unfavourable exchange rates had also added to cost burdens. Although solid overall, the rate of input price inflation nonetheless slowed to a four-month low during July.

# Suppliers' Delivery Times Index

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



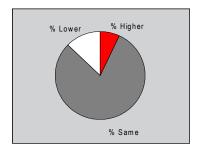


The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark in July, suggesting a further deterioration in vendor performance. Lead times have increased in each month of 2012 so far but, with the index only slightly below the neutral threshold, the latest increase was only marginal. Transportation problems was generally cited by firms when explaining the latest lengthening of delivery times.

## Quantity of Purchases Index

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



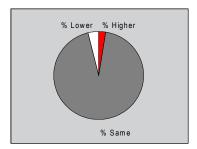


The quantity of inputs bought by Brazilian manufacturing firms declined for the fourth consecutive month in July. Approximately 13% of panellists reduced their buying activity (while 7% increased their purchases), and generally attributed the decline to lower production requirements. Overall, the amount of inputs purchased fell moderately in July, albeit to a lesser extent than in June.

# Stocks of Purchases Index

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





Following the trend that has been registered in each month since June 2011, input inventories at Brazilian manufacturing firms fell further in July. A number of monitored companies commented on lower production requirements during the latest survey period. That said, the latest depletion of stocks of purchases was only marginal, and the weakest in the current sequence of decline.

# 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 $^{-1}$  (PMI $^{-1}$ ) 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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