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HSBC Brazil Manufacturing PMI™

Marginal declines in both output and new orders in August

Key findings:

- New orders fall at weakest rate of current sequence
- Job losses registered for fifth consecutive month
- Input price inflation quickens to joint-fastest pace in 14 months

August data indicated only a marginal deterioration in Brazil's manufacturing sector business conditions. Both output and new orders fell over the month, but the rates of contraction were only marginal and the weakest in the current five-month sequences. Employment also declined for the fifth consecutive month, but the rate of job losses was only modest overall. Firms meanwhile reported higher input and output prices in August, with the rates of inflation both strengthening from July.

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 – remained below the 50.0 nochange mark in August, indicating a further deterioration in manufacturing business conditions. However, at 49.3, up from 48.7 in July, the PMI was only marginally below the neutral threshold and indicated only a slight contraction overall.

Brazilian manufacturers reported a further decline in new order volumes during August. New work intakes have fallen in each of the past five months, but the latest reduction was only marginal and the weakest in this sequence. New export orders also fell over the month, continuing the trend that has been recorded since April 2011. Anecdotal evidence suggested that exports were affected by weak global economic conditions.

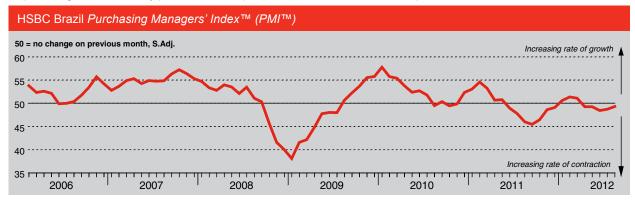
Reflective of lower new order requirements, firms reduced their output during the latest survey period. However, production fell

only fractionally from one month previously. Stocks of finished goods also declined in August, albeit to a lesser extent than that registered in July, while backlogs of work were depleted for the fifth month running.

Concurrently, manufacturers bought a lower quantity of inputs in August. Input inventories also declined over the month, with the rate of stock depletion quickening to its fastest pace since May. Panellists generally linked the decline in buying activity to lower output requirements. Meanwhile, suppliers' delivery times lengthened further during the latest survey period. Longer lead times have been reported in each month of 2012 so far, but the latest deterioration in vendor performance was only slight.

Manufacturing employment in Brazil fell for the fifth consecutive month in August. Approximately 6% of surveyed firms reduced their staffing levels since July, with respondents generally citing recent declines in production. Nonetheless, the overall rate of decrease was only modest and the weakest for three months.

Input costs faced by monitored companies increased further in August, with transportation, food and steel all particularly mentioned by panellists as having increased in price. Moreover, the rate of input price inflation was strong and the joint-fastest in 14 months. Firms partly passed increases in input costs on to clients by raising their selling prices. Notably, output charges rose solidly from that reported in July, with the rate of increase the fastest since April 2011.



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.

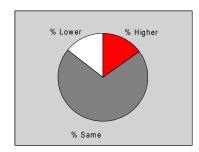




Output Index

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



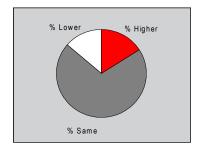


The seasonally adjusted Output Index remained below the 50.0 no-change mark in August, signalling a further reduction in Brazil's manufacturing production. Output has declined for five consecutive months, with monitored companies generally linking the latest fall to recent reductions in new orders. That said, with the index the highest since March and only slightly below the neutral threshold, it indicated that the rate of contraction was only marginal overall.

New Orders Index

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

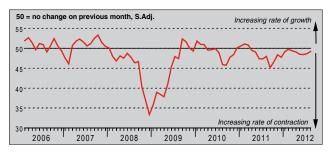


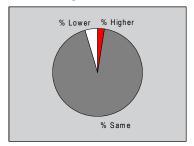


After adjusting for seasonal variation, the volume of new orders received by Brazilian manufacturers fell for the fifth consecutive month in August. However, the latest reduction in new work intakes was only marginal and the weakest in the current sequence of contraction. A number of monitored companies that reported lower new order levels commented on the loss of sales due to higher selling prices in 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.



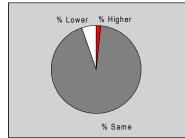


Continuing the trend that has been registered in each month since April 2011, the volume of new export orders placed at Brazilian manufacturing companies fell further during August. Approximately 5% of surveyed firms reported a reduction in new work from export markets (while 2% registered an increase), with panellists largely citing weakness in the global economy. That said, new export orders fell only marginally from July, with the rate of decline the weakest since March.

Backlogs of Work Index

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



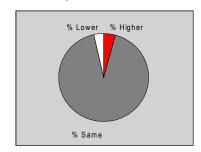


Firms working in Brazil's manufacturing sector reported a further depletion of backlogs of work in August. Outstanding business has declined in each month since April, although the latest reduction was only moderate and the weakest in this sequence. Companies that recorded a lower level of work-in-hand compared with one month previously (approximately 5%) generally linked the reduction to recent declines in production.

Stocks of Finished Goods Index

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



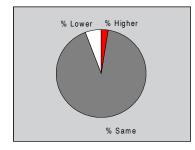


Inventories of finished goods were depleted in August, as indicated by the seasonally adjusted Stocks of Finished Goods Index posting below the 50.0 no-change mark. Firms largely linked the reduction in inventories to lower output, although a number of monitored companies also commented on recent production problems. However, the index rose from July's four-month low, and signalled only a marginal depletion of stocks in August.

Employment Index

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



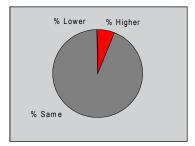


Employment in Brazil's manufacturing sector fell further in August, taking the current sequence of job losses to five months. Approximately 6% of monitored companies reduced their employee headcounts since July, while less than half that many hired additional staff. Anecdotal evidence provided by panellists attributed lower staffing levels to recent declines in production. Overall, employment fell modestly over the month, with the rate of contraction the weakest since May.

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 sixth consecutive month in August. This was indicated by the seasonally adjusted Output Prices Index posting above the 50.0 no-change mark that separates charge inflation from deflation. Firms that raised their output prices over the month (approximately 6%) generally commented on passing greater cost burdens on to clients. Notably, the index rose to a 16-month high, and signalled a solid increase in output charges overall.

Input Prices Index

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



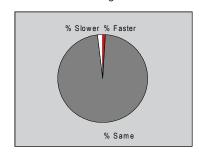


August data signalled a further increase in input prices, continuing the trend that has been registered in each month since September 2009. Panellists particularly mentioned higher transportation, food and steel prices during the latest survey period, although a number of respondents also commented that unfavourable exchange rates had contributed to the overall rise in cost burdens. The rate of input price inflation was strong and, having strengthened over the month, was the joint-fastest since June 2011.

Suppliers' Delivery Times Index

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



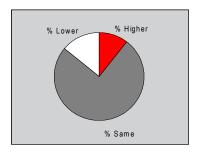


Lead times on inputs lengthened further in August, with the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 nochange mark that separates an improvement in vendor performance from a deterioration. Longer delivery times have been reported in each month of 2012 so far. Despite the index falling to a three-month low, it was higher than the long-run series average and signalled only a marginal increase in suppliers' delivery times in August.

Quantity of Purchases Index

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



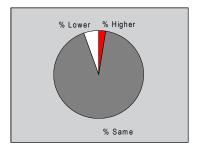


Brazilian manufacturing companies bought a smaller quantity of inputs in August, with exactly 14% of survey respondents reporting a reduction compared with that purchased in July. Anecdotal evidence attributed the decline in buying activity to lower production requirements. Overall, the amount of inputs purchased during the latest survey period fell modestly, albeit at the weakest rate in four months.

Stocks of Purchases Index

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





Input inventories at Brazilian manufacturers fell for the fifteenth successive month in August. This was signalled by the seasonally adjusted Stocks of Purchases Index remaining below the 50.0 no-change threshold. Moreover, the index fell to a three-month low, suggesting a stronger rate of contraction in the latest survey period. A number of monitored companies that reported lower purchases inventories cited reduced output requirements.

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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