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HSBC Brazil Manufacturing PMI™

Manufacturing operating conditions improve at slowest rate in six months

Key findings:

- Output growth eases
- Slight rise in total new orders, but business from abroad falls
- Input buying increases for sixth consecutive month

April data pointed to a further improvement in manufacturing operating conditions across Brazil, albeit slight and the slowest in six months. In line with higher new business inflows, output expanded. That said, both production and new orders grew at slower rates to those seen in March. Export sales fell for the first time since last November. Meanwhile, input buying rose for the sixth successive month.

The HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) is a composite indicator derived from individual diffusion indices measuring changes in output, neworders, employment, suppliers' delivery times and stocks of purchases. Readings above 50.0 indicate expansion and below that threshold, contraction. After adjusting for seasonal factors, the index posted 50.8 in April, down from 51.8 in March. The latest reading indicated a further expansion in the country's manufacturing sector. That said, the PMI fell for the third month running and was at a six-month low.

Another moderate rise in production was registered during April, marking an eight-month sequence of expansion. However, the pace of increase was the slowest recorded in six months. Evidence suggested that output growth was supported by higher levels of incoming new work. Total new orders rose for the seventh consecutive month, albeit only slightly and at the slowest rate since October last year. In contrast, new business from abroad fell slightly, amid reports of weaker demand from key export markets. The latest contraction ended a four-month

period of rises.

The quantity of items purchased by manufacturers in Brazil increased during April. The pace of growth was, however, only slight and little-changed from March. Nevertheless, stocks of purchases were depleted for the twenty-third consecutive month. But, with around 5% of monitored companies reporting a lower holding of raw materials and semi-manufactured goods, and 93% signalling no change, the overall rate of contraction was only slight. Similarly, post-production inventories fell. The rate of depletion was only fractional, but ended a two-month sequence of accumulation.

Inflationary pressures in the Brazilian goods-producing sector persisted in April. Whereas input prices increased solidly, competition for new work had prevented companies from passing on to clients the full burden of cost inflation and factory gate prices rose only moderately. Purchase prices increased for the forty-fourth successive month, while the rise in charges was the fourteenth consecutive registered. Anecdotal evidence suggested that raw materials, with particular mentions of steel, plastic and fuel, had increased in price over the month.

For the first time in four months, employee headcounts fell. The latest drop was, however, only fractional. Meanwhile, backlogs of work were depleted, albeit moderately. Concurrently, vendor performance deteriorated further, with panel members mentioning poor highway conditions and shortages of raw materials.



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.

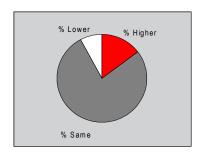




Output Index

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



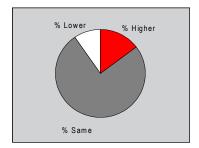


Companies operating in the Brazilian manufacturing sector indicated that output rose during April. The rate of expansion was, however, only modest and the slowest in six months. The seasonally adjusted Output Index posted above the no-change threshold for the eighth consecutive month, but was below the long-run series average. Anecdotal evidence suggested that new contract wins resulted in higher production levels.

New Orders Index

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



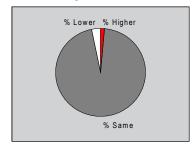


Incoming new work in the Brazilian goods-producing sector increased for the seventh successive month in April. However, the pace of growth was only slight and the slowest since October 2012. Almost 15% of monitored companies indicated a higher level of new orders, citing stronger demand. In contrast, 10% of panellists signalled lower new work intakes.

New Export Orders Index

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



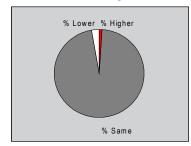


Ending a four-month sequence of expansion, new business from abroad placed at manufacturers in Brazil fell during April. But, with around 3% of survey participants indicating lower levels of export orders and the vast majority (95%) signalling no change from March, the overall rate of contraction was only slight. Panel members stated that demand from key export markets was weaker.

Backlogs of Work Index

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

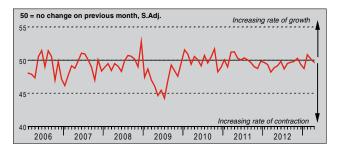




Backlogs of work in the Brazilian manufacturing sector decreased for the second month running during April. Despite being moderate, the rate of depletion was faster than that registered in March. Almost 3% of surveyed companies indicated a lower level of unfinished business, while the vast majority (96%) reported no change from one month previously.

Stocks of Finished Goods Index

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



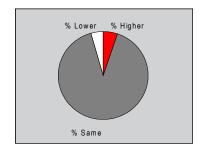


Post-production inventories at manufacturing firms in Brazil fell during April, ending a two-month period of accumulation. Almost 5% of monitored firms reported lower stocks of finished goods, but 93% indicated no change. Subsequently, the overall pace of contraction was only fractional. The seasonally adjusted Stocks of Finished Goods Index was broadly in line with the average reading for the first quarter of the year (49.9).

Employment Index

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



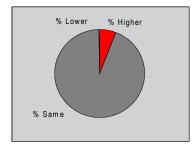


Job losses were signalled by companies operating in the Brazilian manufacturing sector during April. The pace of contraction was, nevertheless, only fractional. The Employment Index adjusted for seasonal variations posted below the no-change mark of 50.0 for the first time since December. Those panellists indicating job losses mentioned the non-replacement of voluntary leavers.

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.



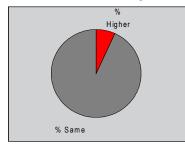


April data signalled that prices charged by manufacturers in Brazil rose, marking a 14-month inflationary sequence. However, the rate of increase was moderate and eased from that seen last month. Almost 6% of monitored companies reported higher factory gate prices and generally mentioned attempts to pass on to clients part of their increased cost burdens.

Input Prices Index

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



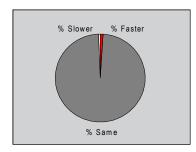


Prices paid for inputs by Brazilian manufacturing firms increased during April, amid evidence of higher steel, plastic, fuel and raw material prices. Despite being solid, the rate of inflation eased from March. Moreover, the Input Prices Index adjusted for seasonal factors posted below the long-run series trend. Average purchase prices have increased in each month since September 2009.

Suppliers' Delivery Times Index

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



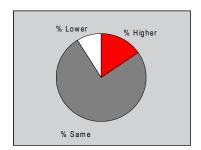


Vendor performance in the Brazilian manufacturing sector worsened further in April. However, suppliers' delivery times lengthened to a lesser extent than that seen in March. The latest deterioration was the sixteenth in successive months. A number of survey participants mentioned poor highway conditions and a shortage of raw materials.

Quantity of Purchases Index

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

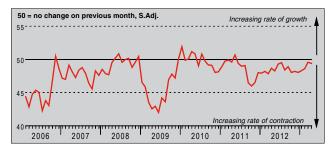


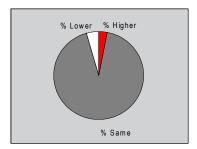


In line with higher production requirements, manufacturing companies in Brazil increased their buying activity during April. The rate of expansion as indicated by the seasonally adjusted Quantity of Purchases Index was only slight and little-changed from March. Growth in input buying has now been sustained for six consecutive months.

Stocks of Purchases Index

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





Stocks of purchases in the Brazilian goods-producing sector fell for the twenty-third month running in April. The overall rate of stock depletion was, however, slight and broadly in line with that recorded in the previous month. Almost 5% of manufacturers reported a lower stock of raw materials and semi-finished goods. Conversely, around 3% of firms indicated higher pre-production inventories.

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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