Embargoed until: 10:00 (SAO PAULO), 1 July 2013

HSBC Brazil Manufacturing PMI™

PMI unchanged from May's seven-month low

Key findings:

- Marginal improvement in manufacturing operating conditions
- Output expands, albeit modestly
- · New order growth weakest in current nine-month expansionary sequence

The HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy, where readings above 50.0 indicate expansion and below that threshold contraction. After adjusting for seasonal factors, the PMI posted 50.4 in June, unchanged from May's seven-month low. Despite remaining in positive territory for the ninth consecutive month, the latest PMI reading indicated that operating conditions improved only marginally.

New orders placed at manufacturers in Brazil rose during June. That said, the pace of expansion was only marginal and the weakest in the current nine-month period of growth. Monitored companies reported the securing of new clients, but mentioned weaker foreign demand and increased competition. Export business fell for the third month running, and at the sharpest rate in a year-and-a-half. Panellists commented on frail demand from European clients.

Subsequently, output increased only modestly in June. All three monitored sub-sectors recorded higher production levels, with the fastest rise noted at consumer goods producers. Output growth across the overall manufacturing sector has been recorded in each month since September 2012.

Manufacturers increased their buying activity during June. The overall rate of expansion was slight and little-changed from one month previously. Higher quantities of purchases were generally

associated with new contract wins. Meanwhile, average lead times lengthened further, taking the current sequence of worsening vendor performance to 18 months. In addition to increased pressure at suppliers, surveyed firms linked the latest deterioration to poor road conditions.

On the price front, faster rates of inflation were signalled in June. Input cost inflation accelerated to the quickest in 25 months, whereas the rise in charges was the fastest since March 2011. Higher purchase prices were generally linked to increased raw material costs and unfavourable exchange rates. Tariffs were reportedly raised in attempts to pass on to clients part of the increased cost burden.

Weaker gains in new orders once again contributed to cautious hiring trends in the Brazilian manufacturing sector. Net job shedding was recorded for the third successive month, although the pace of decrease was less pronounced than in May. Staffing levels fell at investment goods producers, whereas a modest increase was registered in the consumer goods sector. Employment across the intermediate goods sector was unchanged from one month previously.

June data highlighted lower stocks of purchases at manufacturers in Brazil and another contraction in post-production inventories. Holdings of both raw materials and finished goods were depleted at slight rates, but the fall in stocks of finished goods was the fastest in 15 months.



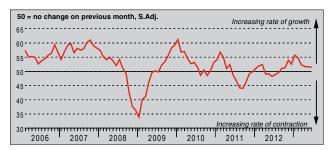
The HSBC Brazil *Purchasing Managers' Index (PMI)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

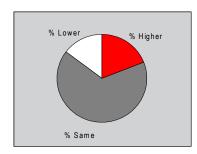




Output Index

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



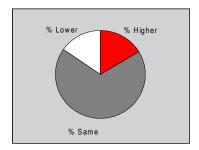


Output in the Brazilian manufacturing sector rose during June, amid reports of higher levels of incoming new work. Whereas 19% of survey participants signalled increased production, almost 15% reported a decline. Consequently, the rate of expansion was modest and broadly unchanged from May. Output growth has now been recorded in each month since last September.

New Orders Index

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





New orders placed at manufacturing companies in Brazil increased during June. That said, the overall pace of expansion was only marginal and the weakest in the current nine-month period of growth. Panel members reporting higher volumes of incoming new work cited the securing of new clients, but commented on weaker export business and increased competition.

New Export Orders Index

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



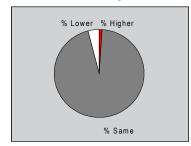


Export business in the Brazilian manufacturing sector fell in June, amid evidence of weaker demand from European clients. Despite being moderate, the rate of contraction was the most pronounced in a year-and-a-half. The fastest decline in foreign orders was registered at intermediate goods producers, followed by the consumer goods sector. In contrast, growth was signalled at investment goods producers, albeit fractional.

Backlogs of Work Index

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

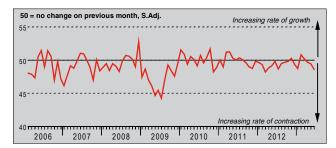


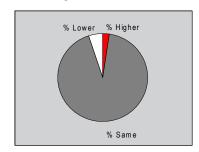


June data indicated that outstanding business levels in the Brazilian manufacturing sector fell. The rate of backlog depletion was, however, moderate and the slowest since March. All three monitored sub-sectors registered lower volumes of work-in-hand, with the fastest decline noted at investment goods producers. Backlogs of work have now fallen for four successive months.

Stocks of Finished Goods Index

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



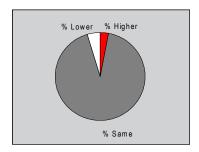


Manufacturers in Brazil reduced their holdings of finished goods for the third consecutive month in June. However, with almost 93% of survey participants indicating no change in their post-production inventories since May, the rate of depletion was only slight. The seasonally adjusted Stocks of Finished Goods Index was, nevertheless, at a 15-month low and below the long-run series average.

Employment Index

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



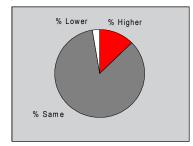


Reflective of weaker gains in new orders, goods-producing firms in Brazil decreased their staffing levels in June. The latest contraction was the third in consecutive months, although the pace of job shedding was only slight and eased from May. Higher payroll numbers in the consumer goods sector was offset by decreases at investment goods producers. Employment at intermediate goods producers was unchanged from one month previously.

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.



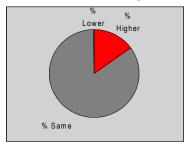


In line with increased cost burdens, Brazilian manufacturers raised their selling prices in June. The rate of charge inflation accelerated to the sharpest in 27 months, and the Output Prices Index adjusted for seasonal influences was well above the long-run series trend. In contrast to 13% of panellists that indicated higher tariffs, only 3% noted a fall. Factory gate prices have increased throughout the past 16 months.

Input Prices Index

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



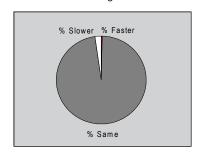


As has been observed in each month since September 2009, prices paid for inputs by Brazilian manufacturers rose in June. The overall rate of cost inflation was sharp and accelerated to the fastest in 25 months. Approximately 15% of monitored companies indicated higher purchase prices, and generally commented on increased raw material costs and unfavourable exchange rates.

Suppliers' Delivery Times Index

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



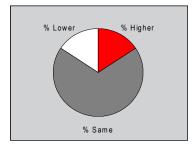


Vendor performance in the Brazilian goods-producing sector deteriorated for the eighteenth month running in June. However, average lead times lengthened only slightly, with around 97% of panellists reporting no change since May. Monitored companies commonly associated longer suppliers' delivery times with poor road conditions.

Quantity of Purchases Index

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



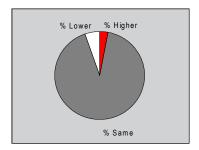


For the eighth consecutive month, manufacturers in Brazil increased their input buying during June. The overall pace of growth as signalled by the seasonally adjusted Quantity of Purchases Index was slight, and little-changed from May. Those panel members reporting higher buying activity commonly linked the rise to new order growth.

Stocks of Purchases Index

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





Holdings of raw materials and semi-manufactured goods at Brazilian manufacturers fell in June. The overall rate of stock depletion was, however, only slight and broadly unchanged from June. Pre-production inventories fell at both consumer and intermediate goods producers. Conversely, stocks of purchases were accumulated in the investment goods sector.

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.