HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Brazil Manufacturing PMI™

PMI signals first deterioration in operating conditions since September 2012

Key findings:

- PMI at 13-month low in July
- Output, new orders and export business all contract
- Input prices rise at sharpest rate in over three years

Reflective of lower foreign business and total new orders, Brazilian manufacturers reduced their output in July. Subsequently, the PMI fell to a 13-month low, and indicated that the country's manufacturing economy deteriorated for the first time since September 2012. Meanwhile, the depreciation of the real reportedly resulted in higher prices paid for inputs, with the rate of cost inflation accelerating to the fastest in over three years and charge inflation picking up to the sharpest in five years.

The HSBC Brazil *Purchasing Managers' Index*™ (*PMI*™) – a seasonally adjusted index derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – fell to its lowest reading in 13 months, posting 48.5 in July, down from 50.4 in the previous month. The latest reading indicated the first deterioration in manufacturing operating conditions across the country since September 2012. Four of the five PMI sub-indices negatively affected the index, the exception being suppliers' delivery times.

Production in the Brazilian manufacturing sector contracted in July, ending a ten-month expansionary sequence. Sector data indicated lower output at both intermediate and investment goods producers, whereas an increase was registered in the consumer goods sector. Weaker demand from both domestic and foreign clients resulted in a solid decline of incoming new business, one that was the sharpest since October 2011. Export business contracted for the fourth consecutive month, amid evidence of falling orders from Argentinian and European clients.

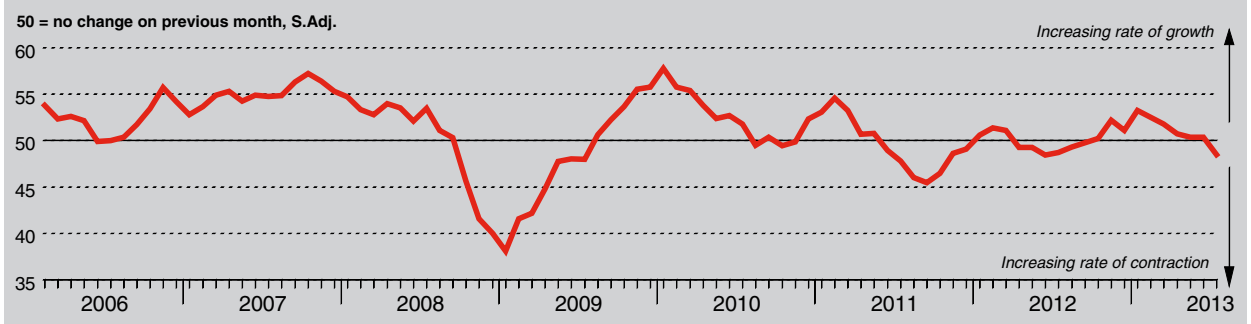
Faced with fewer projects, manufacturers reduced their workforce numbers further in July. Moreover, the rate of job shedding accelerated to the quickest in a year. Meanwhile, evidence of spare capacity was registered as unfinished business levels fell for the fifth consecutive month in July. The pace of backlog depletion was, however, only modest and little-changed from June.

Inflationary pressures persisted in July, with input costs rising at the fastest rate in over three years and charges increasing at the strongest rate since July 2008. Manufacturers commented that the depreciation of the Brazilian real had led to higher prices paid for imported raw materials.

The quantity of inputs bought by Brazilian manufacturers fell in July. Panellists reporting a lower quantity of purchases indicated that this was a result of declining new orders. Nonetheless, vendor performance deteriorated further in the latest survey period, with anecdotal evidence suggesting that suppliers' delivery times were affected by protests.

In attempts to reduce the costs of inventory management, manufacturers reduced their stocks in July. That said, pre- and post-production inventories were both reduced at slight rates.

HSBC Brazil *Purchasing Managers' Index*™ (*PMI*™)



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.

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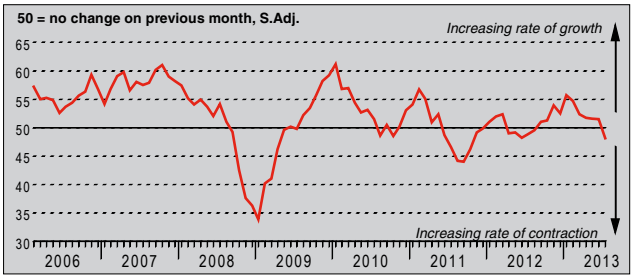
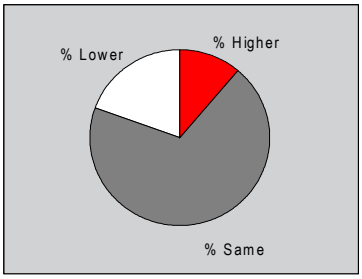
Output Index

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

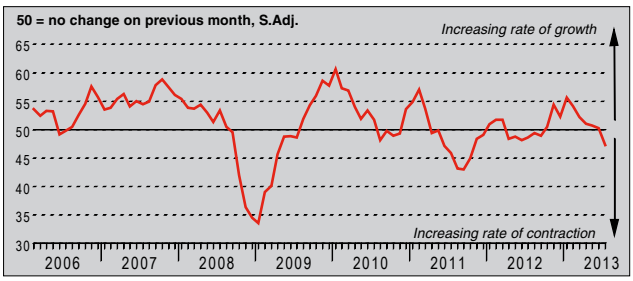


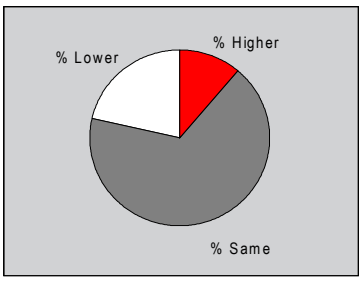


Manufacturing production in Brazil fell for the first time in 11 months during July. The rate of contraction as indicated by the seasonally adjusted Output Index was moderate. Monitored firms indicated that lower production volumes reflected weaker demand. Decreases were registered at both intermediate and investment goods producers, while a slight expansion was noted in the consumer goods sector.

New Orders Index

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

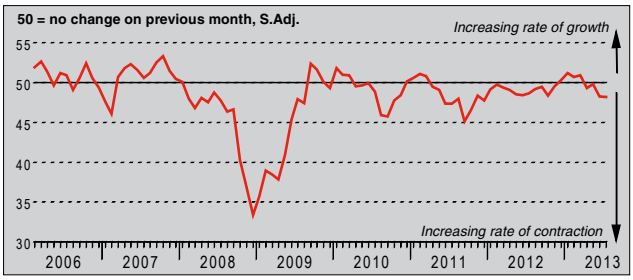


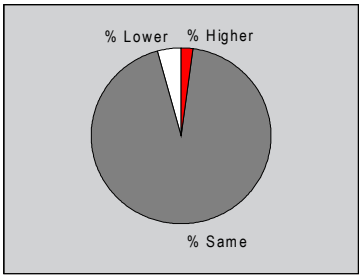


Incoming new business in the Brazilian manufacturing sector fell during July, ending a nine-month expansionary sequence. The pace of contraction was solid and the quickest since October 2011. Panel members largely commented on economic instability and competitive pressures (in particular from Chinese manufacturers). The fastest decline in order book volumes was registered at investment goods firms, followed by the intermediate goods sector. Consumer goods companies signalled growth, albeit fractional.

New Export Orders Index

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

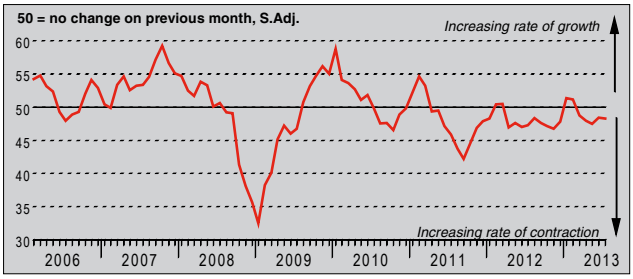


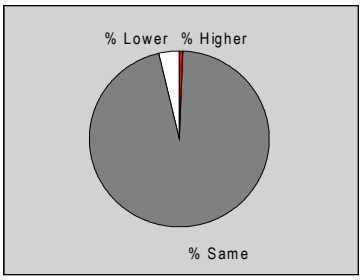


July data highlighted a further reduction in foreign orders placed at Brazilian manufacturers. Despite being modest, the rate of decrease was the fastest in over a year-and-a-half. According to surveyed firms, demand from both Argentinian and European clients was weaker. Companies also commented on unfavourable exchange rates.

Backlogs of Work Index

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





Evidence of spare capacity remained, as backlogs of work fell for a fifth successive month in July. However, with around 4% of monitored firms reporting lower volumes of work-in-hand (but not yet completed) and 96% indicating no change from one month previously, the rate of depletion was only moderate and broadly unchanged from June.

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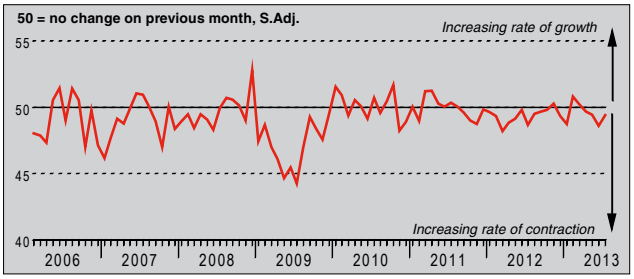
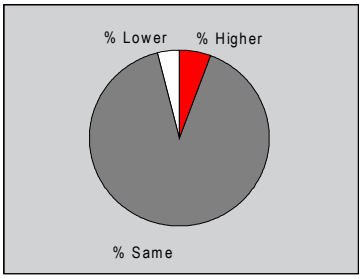
Stocks of Finished Goods Index

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

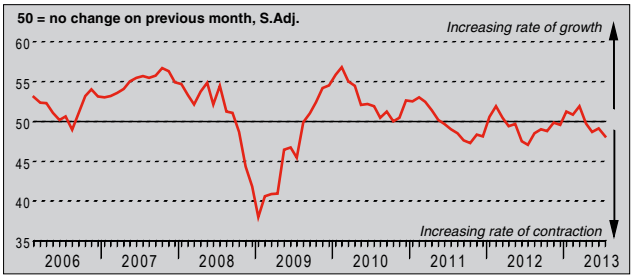


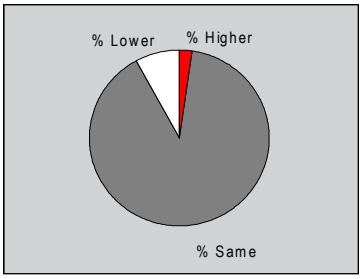


Post-production inventories in the Brazilian manufacturing sector fell during July, taking the current sequence of depletion to four months. The overall pace of contraction was, however, slight and eased since June. Among other factors, surveyed companies commented on attempts to reduce the costs of inventory management.

Employment Index

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

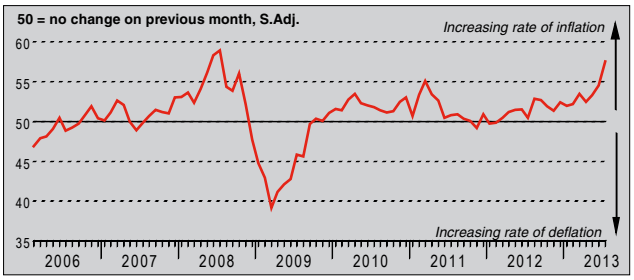


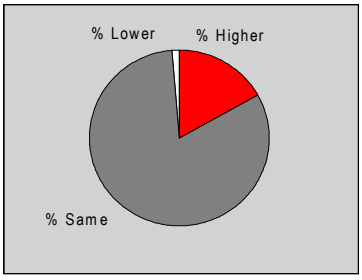


As has been observed in each month since April, payroll numbers in the Brazilian manufacturing sector fell in July. Furthermore, the rate of job shedding accelerated to the fastest in one year. Employee headcounts fell in both the intermediate and investment goods sectors, while a rise (although marginal) was noted at consumer goods producers. Companies suggested that staffing levels were cut in line with lower demand.

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.

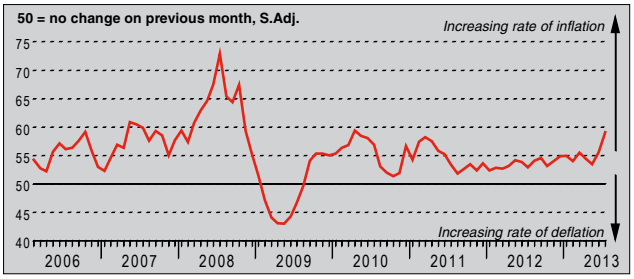


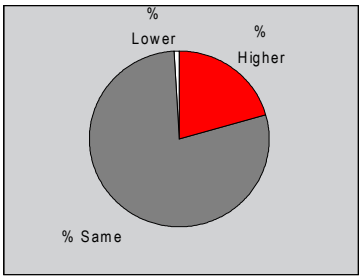


Prices charged by Brazilian manufacturers rose sharply in July, amid evidence of higher cost burdens. Moreover, the rate of charge inflation was the fastest registered in five years. Almost 17% of survey participants reported higher selling prices, compared with only 1% that noted a reduction. All three monitored categories recorded increased tariffs, with the strongest rise noted at investment goods producers.

Input Prices Index

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

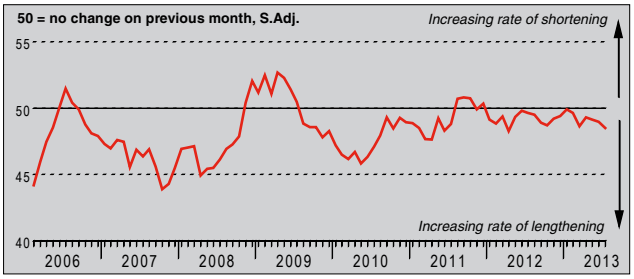


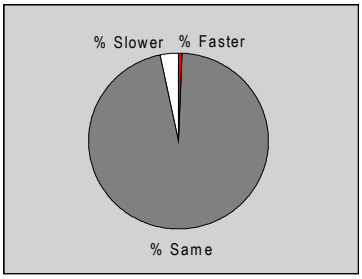


Brazilian manufacturers indicated higher prices paid for inputs during July, taking the current sequence of cost inflation to 47 months. The average price of purchases rose sharply and at the fastest rate in over three years. Monitored firms largely commented that the depreciation of the Brazilian real, in particular against the US dollar, had resulted in higher prices paid for imported raw materials.

Suppliers' Delivery Times Index

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

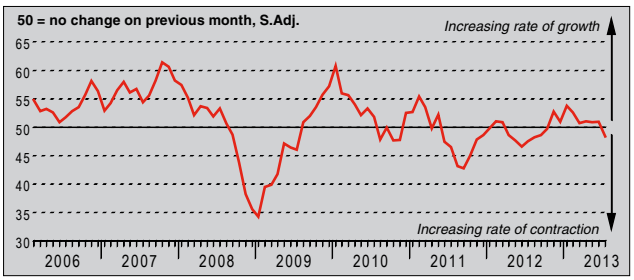


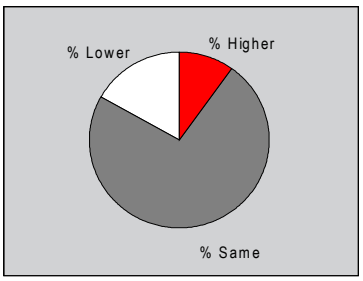


Average lead times in the Brazilian manufacturing sector lengthened for the nineteenth successive month in July. Furthermore, vendor performance deteriorated to the greatest extent since April 2012. Anecdotal evidence suggested that suppliers' delivery times were largely affected by the national protest.

Quantity of Purchases Index

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

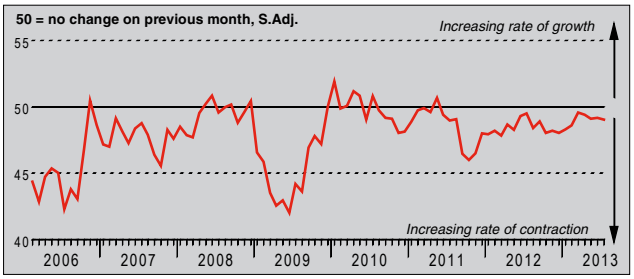


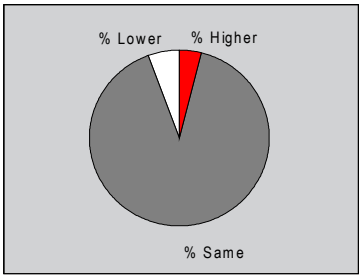


The quantity of items purchased for production by Brazilian manufacturers fell during July, after rising in each of the previous eight months. In contrast to 17% of panel members that signalled lower purchasing activity, 10% noted an increase. Subsequently, the pace of contraction was moderate. Firms that reported lower input buying commented that this reflected weaker demand.

Stocks of Purchases Index

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





Pre-production inventories in the Brazilian goods-producing sector decreased in July, amid reports of cost-cutting measures. The overall pace of contraction was, however, only slight. Furthermore, the Stocks of Purchases Index adjusted for seasonal variations was above the long-run series average (47.9).

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™ (PMI™)* 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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