HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Brazil Manufacturing PMI™

Deterioration of manufacturing operating conditions extends to August

Key findings:

- PMI rises to 49.4, but remains in contraction territory
- Output falls at marginal and slower pace
- Incoming new work declines and firms reduce workforce numbers

Brazilian manufacturing business conditions continued to deteriorate in August, with further declines in output and new orders reported by monitored companies. With rates of contraction softening since July, the PMI increased during the latest month to signal a marginal deterioration overall. The reduction in new work intakes led firms to reduce payroll numbers further.

August's 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 – rose from 48.5 in July to 49.4, indicating a further, albeit slower, deterioration of operating conditions across the country.

Output in the Brazilian manufacturing sector fell for the second successive month in August, amid evidence of lower volumes of incoming new work. That said, the rate of contraction eased to a marginal pace. Decreases were recorded in both the investment and intermediate goods sectors, while consumer goods producers continued to signal growth.

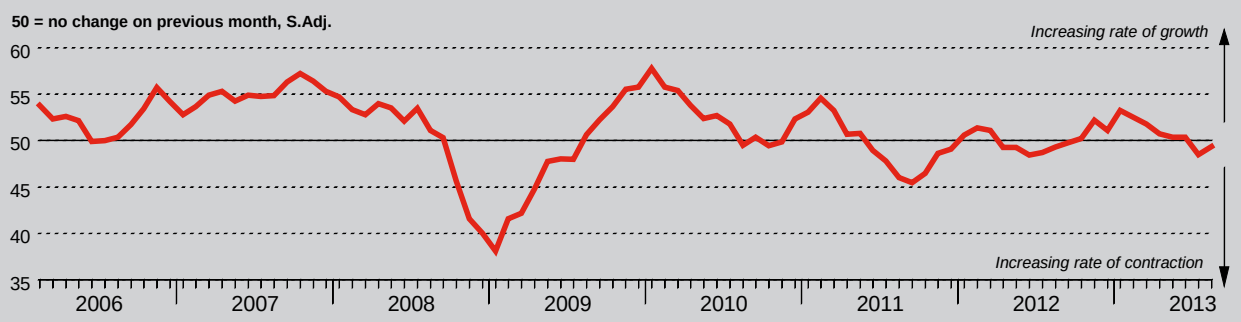
Lower levels of new orders have now been recorded for two consecutive months, with the latest survey pointing to a marginal and slower pace of contraction. Those panel members indicating falling volumes of incoming new work reasoned that this was due to weaker demand and increased competition from Chinese manufacturers. Order book volumes fell at both intermediate and capital goods producers, while manufacturers of consumer goods signalled growth. Export business fell again in August, in part reflecting weaker demand from Argentinian and European clients. Meanwhile, purchasing activity contracted slightly in August.

Falling new order intakes contributed to a further depletion of unfinished business levels, one that was the fastest since November 2012. Faced with spare capacity and fewer projects, Brazilian manufacturers reduced their workforce numbers in August. The latest decline in employment was moderate and the fifth in successive months. Sector data highlighted job losses across all three monitored categories, with the fastest drop noted at capital goods producers.

Amid reports of a continued depreciation of the Brazilian real against the US dollar, manufacturers' cost burdens rose at the sharpest rate in almost five years during August. Correspondingly, average selling prices were raised further. The rate of charge inflation remained robust, but eased from July's five-year peak as competitive pressures persisted.

August data highlighted another contraction of stock holdings in the Brazilian goods-producing sector. Inventories of raw materials and semi-manufactured goods were depleted at a slight, albeit faster pace. Post-production stocks also fell slightly, and at a broadly similar rate to that recorded one month previously.

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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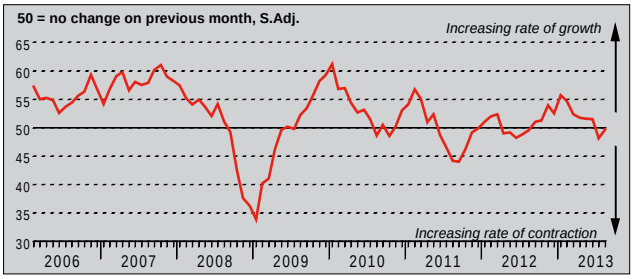
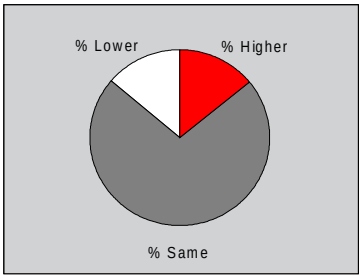
Output Index

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

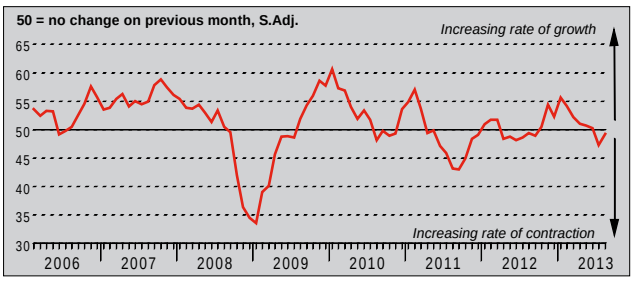


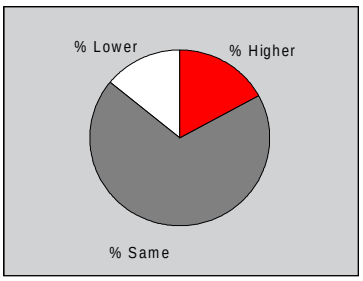


August data indicated that production across the Brazilian manufacturing economy fell for a second consecutive month. The rate of contraction as signalled by the seasonally adjusted Output Index was, however, marginal and eased since July. Moderate contractions were recorded in the intermediate and capital goods sectors, while consumer goods producers registered growth. Panellists reporting lower production commented on tough economic conditions, increased external competition and falling volumes of incoming new work.

New Orders Index

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

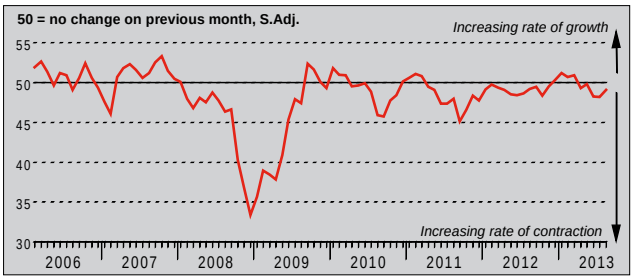


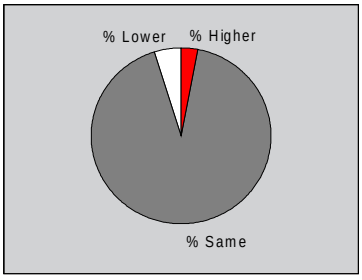


Brazilian manufacturers indicated that order book volumes fell in August. The New Orders Index adjusted for seasonal variations posted below the 50.0 no-change mark for the second successive month and was consistent with a slight contraction overall. Anecdotal evidence suggested that demand was weaker and that competitive pressures, in particular from Chinese manufacturers, persisted. New orders fell at both intermediate and investment goods producers, whereas consumer goods firms recorded a rise.

New Export Orders Index

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

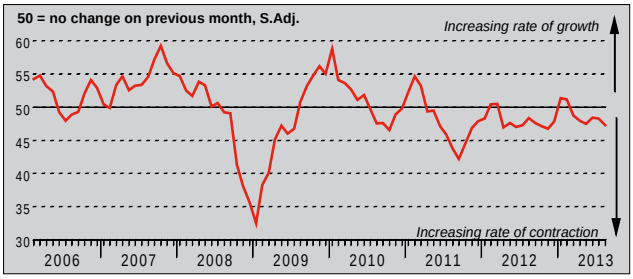


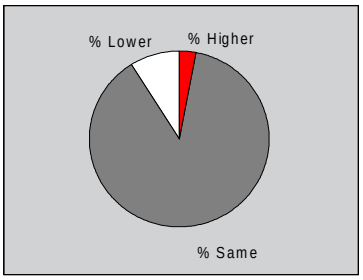


New export orders in the Brazilian manufacturing sector fell in August, amid reports of increased competition for new work and weaker demand from Argentinian and European clients. Whereas 5% of the survey panel reported lower foreign business, the vast majority (92%) indicated no change from one month previously. Subsequently, the rate of contraction was only slight and the slowest in three months.

Backlogs of Work Index

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





Companies operating in the Brazilian manufacturing sector signalled lower unfinished business levels in August, marking a six-month sequence of depletion. The latest fall in backlogs of work was solid and the fastest since November 2012. Exactly 9% of monitored firms reported lower volumes of work-in-hand (but not yet completed) and generally commented on a lack of new projects.

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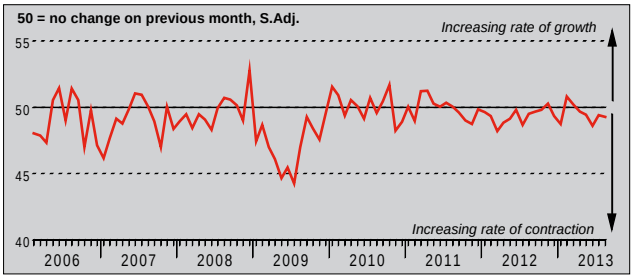
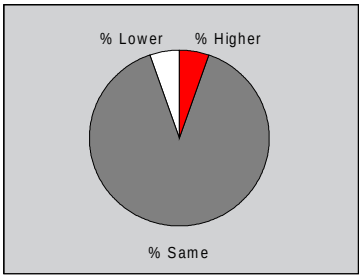
Stocks of Finished Goods Index

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

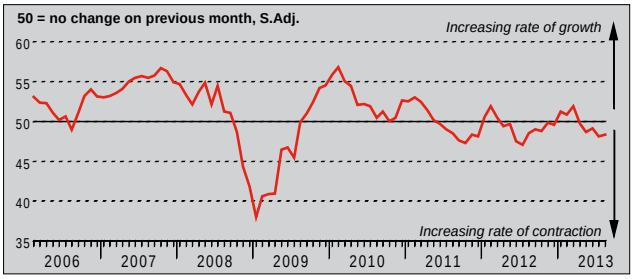


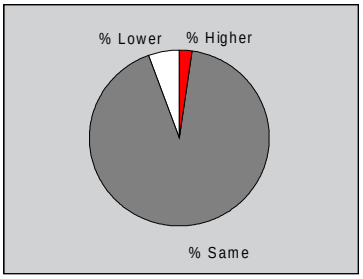


Extending the current sequence of contraction to five months, post-production inventories in the Brazilian manufacturing sector fell in August. The rate of depletion was, however, only slight and broadly unchanged from that seen in July. Furthermore, the seasonally adjusted Stocks of Finished Goods Index posted in line with the long-run series average. Companies signalling lower holdings of finished goods cited falling production.

Employment Index

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

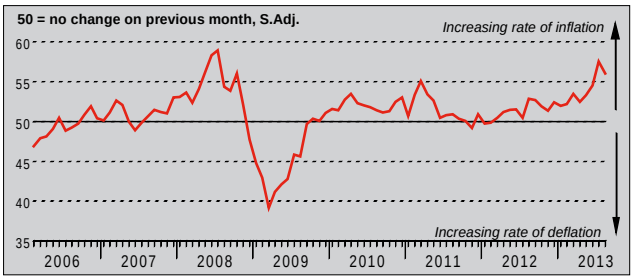


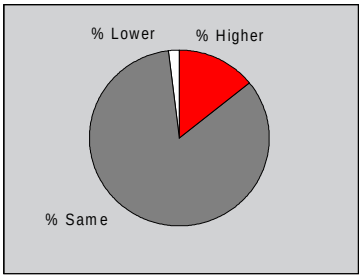


August data pointed to a fifth consecutive contraction of employment levels in the Brazilian manufacturing sector. The overall rate of contraction was, however, moderate and eased slightly from July's one-year record. All three monitored categories recorded lower payroll numbers, with the fastest decline noted at capital goods producers. Panellists indicated that workforce numbers were reduced in line with lower levels of incoming new work.

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.

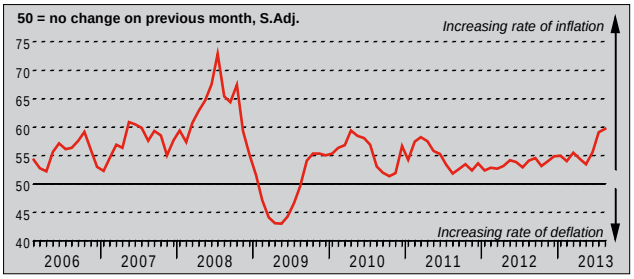


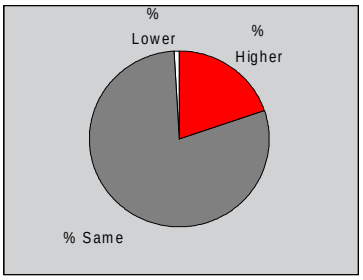


Prices charged by Brazilian manufacturers rose further in August, marking an 18-month inflationary period. Despite remaining robust, the rate of charge inflation eased from July's five-year peak. Higher selling prices were recorded across all three monitored sub-sectors, with the sharpest increase noted at consumer goods producers. The passing on of increased cost burdens was the primary factor highlighted by firms signalling higher factory gate prices.

Input Prices Index

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

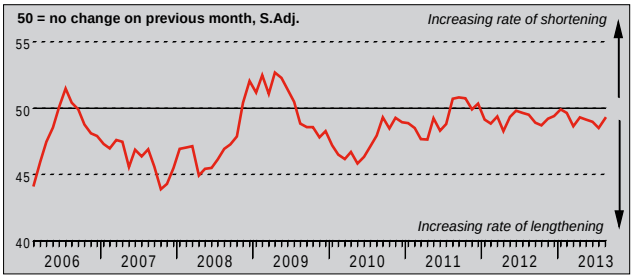


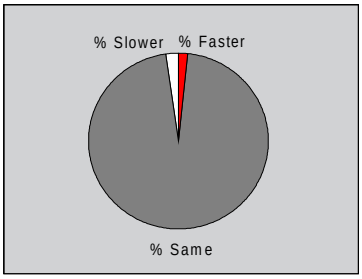


Continuing the trend that started in September 2009, average prices paid for inputs by Brazilian manufacturers rose in August. The rate of cost inflation accelerated to the sharpest in almost five years, with panellists largely commenting that the depreciation of the Brazilian real against the US dollar led to 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.

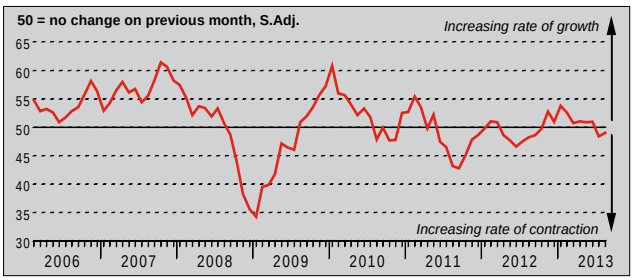


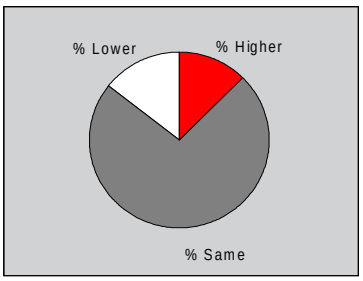


Vendor performance deteriorated further in August, amid evidence of poor road conditions. That said, only 2% of monitored companies reported longer delivery times, whereas the vast majority (96%) indicated no change since July. Consequently, the pace of lengthening eased to the slowest since April and was slight overall.

Quantity of Purchases Index

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

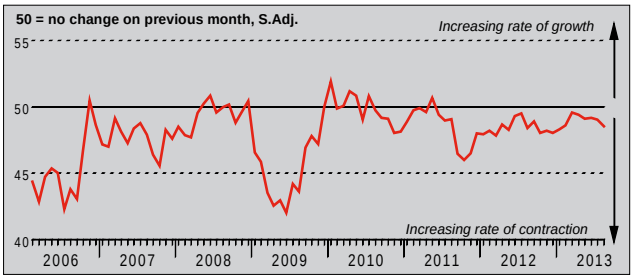


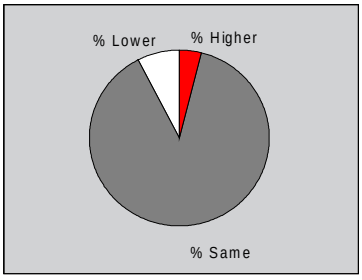


The rate of contraction in the quantity of items bought by Brazilian manufacturers eased in August. This was indicated by the seasonally adjusted Quantity of Purchases Index rising from July's 11-month low. Purchasing activity fell in both the investment and intermediate goods sectors, whereas growth was registered at consumer goods producers. Those firms reporting a lower quantity of items purchased attributed this to falling new order levels.

Stocks of Purchases Index

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





Reflective of falling quantities of goods purchased, pre-production inventories in the Brazilian manufacturing sector decreased in August. The rate of stock depletion picked up pace and was the fastest in six months. All three monitored categories recorded lower holdings of raw materials and semi-manufactured goods, with the fastest contraction noted in the capital 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™ (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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