Embargoed until: 10:00 (SAO PAULO), 2 January 2013

# HSBC Brazil Manufacturing PMI™

Fourth successive monthly rise in output

#### Key findings:

- · Moderate expansion in order book volumes
- New export orders increase for first time in 21 months
- Rate of input price inflation at 18-month high

Output in the Brazilian manufacturing sector rose for the fourth consecutive month during December. New orders also increased, but the rate of expansion eased from November's 21-month high. Growth in new export sales was the first recorded in 21 months. Meanwhile, both input and output price inflation persisted, with costs rising at the faster rate.

After adjusting for seasonal variations, the HSBC Brazil  $Purchasing\ Managers'\ Index^{TM}\ (PMI^{TM})$  – 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 readings below 50.0 signal contraction – posted 51.1 in December. That was down from the reading of 52.2 in November, to signal a further, albeit slower, improvement in the health of the Brazilian manufacturing sector.

Production at manufacturing companies in Brazil rose during December, the fourth consecutive monthly increase registered. Growth in output was solid, but slower than in November. Purchasing activity also expanded, amid reports of expected rises in demand. Although input buying increased only slightly, growth was recorded for the second consecutive month.

The volume of incoming new work at manufacturing companies in Brazil expanded moderately in December. Survey respondents indicated that higher new orders reflected stronger demand. New export orders also increased, albeit only slightly. Export sales rose for the first time since March 2011.

Despite falling staffing levels, backlogs of work in the Brazilian goods-producing sector decreased in December. However, the pace of depletion was only modest and the slowest in four months. Unfinished business has fallen in each of the past nine months. Staffing levels contracted, amid reports of the non-replacement of resigned staff. With almost 6% of panellists signalling lower payroll numbers, but the vast majority (91%) reporting no change, the overall rate of contraction was only slight.

As has been the case since September 2009, input costs in the Brazilian manufacturing sector increased during December. The pace of inflation was robust, and the fastest in 18 months. Anecdotal evidence suggested that raw material costs were greater.

Part of the burden of cost inflation was passed on to clients, as prices charged increased again. Output prices rose solidly, and at the fastest rate in three months. Almost 6% of panel members indicated higher charges at their units, citing increased input costs and unfavourable exchange rate conditions.

In contrast to an accumulation registered in November, postproduction inventories in the Brazilian manufacturing sector fell in December. However, the overall pace of depletion was only slight. Stocks of purchases also decreased, albeit moderately.

Meanwhile, poor highway conditions continued to affect average lead times, it was reported. Vendor performance lengthened for the twelfth successive month, but at a slight pace.



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.

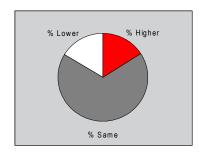




#### **Output Index**

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



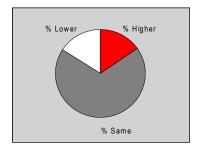


Continuing the trend that started in September, output in the Brazilian manufacturing sector rose during December. Although solid, the pace of expansion was slower than that recorded in November. According to monitored companies, output growth was supported by higher order book volumes. Furthermore, the Output Index adjusted for seasonal factors posted broadly in line with the series average.

#### **New Orders Index**

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



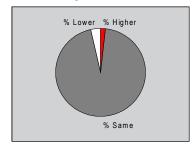


Brazilian manufacturing companies indicated increased new work intakes in December, the third successive monthly rise recorded. That said, the rate of expansion was only moderate and slower than in November. Anecdotal evidence suggested that growth in order book volumes reflected stronger demand.

# New Export Orders Index

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



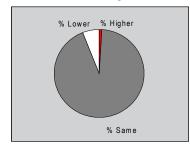


In contrast to a fall recorded in November, new export orders at Brazilian manufacturing firms increased during December. However, the rise in new export sales was only slight. The New Export Orders Index posted above the no-change mark of 50.0 which separates growth from contraction for the first time since March 2011.

# Backlogs of Work Index

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

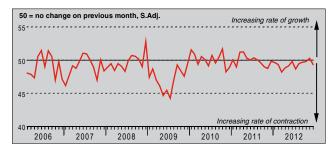


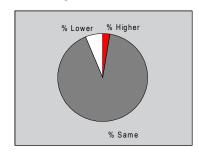


As has been the case since April, backlogs of work in the Brazilian goods-producing sector fell in December. Whereas 6% of panel members signalled lower volumes of work in hand (but not yet completed), the vast majority indicated no-change from the previous month. Consequently, the overall pace of depletion was only modest, and the slowest in four months.

#### Stocks of Finished Goods Index

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



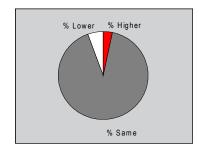


Following an accumulation registered in November, stocks of finished goods in the Brazilian manufacturing sector fell during December. While 6% or survey respondents signalled lower post-production inventories, 91% reported no change. Subsequently, the overall pace of depletion was only slight. Moreover, the Stocks of Finished Goods Index adjusted for seasonal variations posted broadly in line with the series' long-run average.

#### Employment Index

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



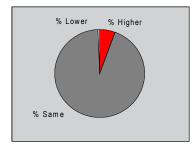


December data signalled falling staffing levels in the Brazilian manufacturing sector. However, the rate of contraction was only slight and broadly in line with that registered in November. A number of panellists indicated that payroll numbers fell in line with the non replacement of voluntary leavers. Job losses have now been recorded in each of the past nine months.

# **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.

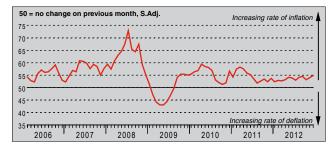


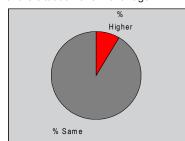


Average selling prices at manufacturing firms in Brazil rose during December, marking a ten-month inflationary sequence. The pace of increase was solid and the fastest in three months. Survey participants indicated that higher input costs and unfavourable exchange rate conditions fed through to the latest rise in 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.

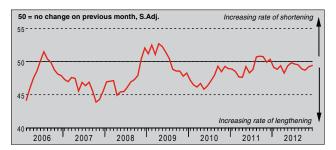


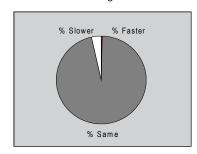


Input prices at manufacturing companies in Brazil increased during December, amid reports of rising raw material costs. There were also reports of unfavourable exchange rate conditions and general market inflation. Cost inflation has now been recorded throughout the past 40 months, with the rate of increase in the latest survey period robust and the 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.



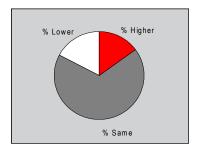


Average lead times in the Brazilian goods-producing sector lengthened during December for the twelfth consecutive month. However, with only 4% of surveyed firms signalling slower vendor performance and the vast majority (96%) reporting no change, the overall pace of deterioration was only slight. Poor highway conditions negatively affected suppliers' delivery times, it was reported.

#### Quantity of Purchases Index

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



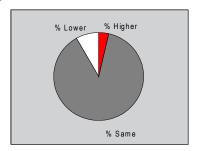


Manufacturing companies in Brazil increased their input buying during December, amid reports of anticipated rises in demand. The Quantity of Purchases Index posted above the no-change threshold for the second consecutive month. However, the rate of expansion in the latest survey period was only slight and eased from November.

# Stocks of Purchases Index

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





Manufacturing companies in Brazil indicated falling stocks of purchases during December, marking a 19-month sequence of depletion. However, the overall pace of decrease was only moderate and in line with that seen in November. Whereas 8% of monitored companies signalled lower preproduction inventories, 88% indicated no change.

#### 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 $^{-1}$  (PMI $^{-1}$ ) 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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