HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Brazil Manufacturing PMI™

Operating conditions deteriorate at fastest pace in ten months during May

Summary

May data indicated that business conditions across the Brazilian manufacturing economy continued to deteriorate. Sustained declines in new orders were accompanied by a stronger contraction of output and further job losses. In attempts to attract new business, companies lowered their average tariffs for the first time since February 2012.

Down from 49.3 in the previous month to 48.8 in May, the seasonally adjusted *HSBC Brazil Purchasing Managers' Index™* (*PMI™*) was at a ten-month low. Although moderate, it was the second consecutive deterioration in operating conditions.

Sector data highlighted investment goods as the worst performing category in May, whereas business conditions also worsened at intermediate goods companies. An improvement was noted at consumer goods manufacturers.

Underpinned by a second consecutive monthly reduction in order book volumes, Brazilian manufacturers scaled down output. Furthermore, the recent drop in production was the most pronounced for over two-and-a-half years. Anecdotal evidence highlighted an increasingly difficult economic climate and weaker domestic demand.

Meanwhile, foreign orders increased for the first time in five months. New export business rose at a marginal pace, however, as the majority of panellists (97%) reported no change in new orders from abroad.

Amid reports of subdued demand conditions and attempts to reduce costs, workforce numbers were lowered again in May. The rate of job shedding was unchanged from the marginal pace seen in April.

As part of efforts to improve competitiveness and secure new contracts, Brazilian manufacturers reduced their output charges in May. Factory gate prices fell for the first time in 27 months, albeit slightly. Concurrently, input cost inflation moderated to the weakest in the current 57-month period of rising purchasing prices.

Backlogs of work declined for the third successive month in May, with survey participants reporting spare capacity. Nonetheless, the rate of backlog depletion was slight overall and softened since April.

Purchasing activity expanded in May, following a contraction noted one month previously. That said, quantities of purchases rose at a fractional pace overall. Where growth was noted, this was associated with stock-building attempts.

Both pre- and post-production inventories at Brazilian manufacturers fell in May, contrasting with growth recorded in April. Nevertheless, stocks of purchases decreased at a slight rate, whereas the reduction in holdings of manufactured goods was marginal overall.

Comment

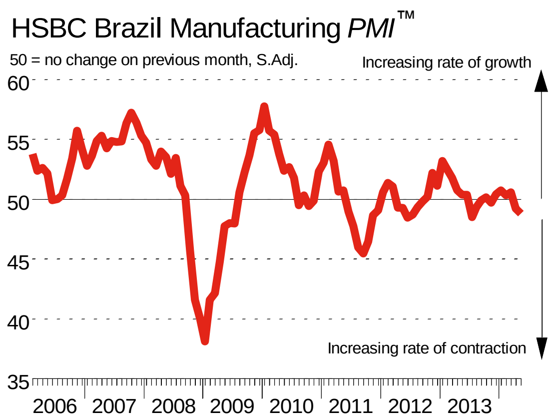
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI signalled a deepening slump of economic activity in Brazil's industrial sector in May, with the headline index receding from 49.3 in April to 48.8 last month. Firms reported the biggest contraction in output since October 2011 and the first m/m decline in output prices since February 2012, reflecting weak demand conditions. Input prices, meanwhile, were reported growing at the slowest pace since August 2009, when the economy was still suffering from the fallout of the global financial crisis."

Key points

- Headline PMI down from 49.3 in April to 48.8
- Quickest drop in output since October 2011
- Prices charged fall for first time in 27 months

Historical Overview



Sources: HSBC, Markit.

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Notes to Editors:

The HSBC Brazil Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics