

HSBC Brazil Manufacturing PMI™

Moderate deterioration of business conditions in July

Summary

Operating conditions in the Brazilian manufacturing sector worsened for a fourth consecutive month in July, as output continued to fall at a solid rate. New orders also fell fractionally as the economy stagnated. However, staffing levels across the industry rose slightly, while inflationary pressures cooled.

The seasonally adjusted headline *HSBC Purchasing Managers' Index™ (PMI™)* – a composite gauge designed to give a summary of business conditions in the manufacturing sector – posted 49.1 in July, up from 48.7 in June. The reading signalled a modest deterioration of operating conditions. Of the three monitored sub-sectors, only capital goods producers enjoyed an improvement in business conditions.

July data indicated a further solid contraction in production as output declined for a fourth successive month. Anecdotal evidence linked lower production to the football World Cup. The rate of output reduction was particularly robust in the intermediate goods sub-sector, whereas producers of investment goods raised output in July.

Panel members also highlighted the detrimental effects of the World Cup on overall demand, as new orders and overseas business fell fractionally in July. New work intakes declined for a fourth month running, while new export orders decreased for the first time since April. Among the monitored sub-categories, only consumer goods companies reported stronger order books in comparison with the previous month.

Meanwhile, purchasing activity by Brazilian manufacturers increased in July, although the rate of expansion was marginal overall. Input buying was slightly reduced in two of the three sub-sectors, however capital goods companies recorded solid growth of buying activity.

Inventory depletion was evident in July as stocks of purchases and stocks of finished goods both fell marginally. These reductions continued recently observed trends in Brazil as pre-production stocks have increased only once since May 2011. Similarly, post-production inventories have fallen in 14 of the past 16 months.

The latest data showed that staffing levels increased in July, thereby ending a three-month period of job shedding. However, the rate of job creation was slight overall. Where payroll numbers did vary, survey participants commented on movements in demand.

July also saw increased input prices, continuing a sequence which has run since September 2009. However, the rate of cost inflation eased from June and was below the series average. Likewise, average tariffs were raised slightly in July. A number of surveyed firms attributed price pressures, both inflationary and deflationary, to the influence of the World Cup.

Comment

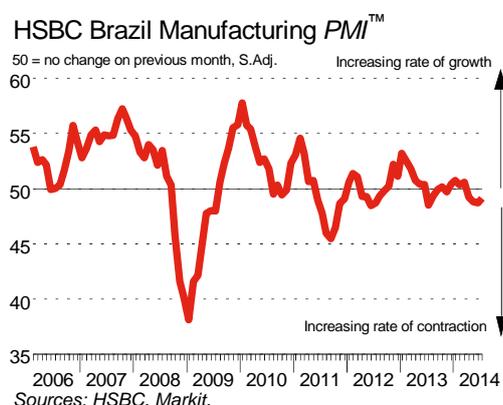
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

“Business activity in Brazil’s manufacturing sector fell in July at about the same rate as in June. Output continued to decline, but at a slightly slower pace than in June. While the data is consistent with the slowdown of the economy as a whole, it also reflects disruptions caused by the FIFA World Cup in June and July.”

Key points

- Output declines for fourth consecutive month
- Marginal reductions in new orders and new business from abroad
- Employment returns to growth for first time since March

Historical Overview



For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone: +55-11-3371-8184
Email: andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone: +55-11-3371-8183
Email: constantin.c.jancso@hsbc.com.br

Chrystiane Silva, Press Officer, HSBC Bank Brazil
Telephone: +55-11-3847-9339
Email: chrystiane.m.silva@hsbc.com.br

Markit

Philip Leake, Economist
Telephone: +44-1491-461-014
Email: philip.leake@markit.com

Joanna Vickers, Corporate Communications
Telephone +44-2072-602-234
E-mail: joanna.vickers@markit.com

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.

HSBC Holdings plc:

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

About Markit:

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 10 countries. Markit shares are listed on NASDAQ under the symbol "MRKT". For more information, please see www.markit.com

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

The intellectual property rights to the HSBC Brazil Manufacturing *PMI*[™] provided herein are owned by or licensed to 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 either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark of Markit Group Limited.