HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Manufacturing PMI™

Fastest contraction in manufacturing output for over six years

Summary

Brazil's manufacturing economy dipped further into contraction during April, with reductions in output, new business and buying levels accelerating over the month. Subsequently, the headline PMI fell to its lowest level since September 2011. Meanwhile, both input costs and output charges rose at stronger rates.

Down from 46.2 in March to a 43-month low of 46.0 in April, the seasonally adjusted *HSBC Brazil Purchasing Managers' Index™ (PMI™)* continued to indicate deteriorating operating conditions. The headline index has now registered below the crucial 50.0 threshold for the third consecutive month.

Brazilian manufacturers reduced production levels in response to lacklustre demand from both domestic and export clients. Moreover, production fell across the three monitored categories and the overall rate of contraction was the sharpest since March 2009.

New order inflows declined for the third straight month in April and at the fastest pace since September 2011. Anecdotal evidence highlighted tough economic conditions, strong inflation rates and weaker demand as the main factors leading to lower order book volumes. Decreases were seen in the three broad areas of the manufacturing economy.

Incoming new export orders fell slightly in April, following unchanged levels in March. There were reports of competitive pressures at a global level. The quickest contraction in foreign demand was signalled by intermediate goods producers.

Job losses were reported for the second month running in April, reflecting cost-cutting policies and falling new business levels. Although moderate, the pace of reduction was little-changed from March's 32-month record. Job cuts were seen in all three monitored categories. Nonetheless, unfinished business fell for the third straight month.

April data signalled a further increase in overall input costs, amid evidence of higher prices paid for utilities. There were also some reports of increased prices for imported raw materials and semi-finished products, in some cases linked to the ongoing weakness of the Brazilian real.

Part of the increase in costs was passed on to clients in the form of higher selling prices. Charges rose at a robust pace that was the strongest in one-and-a-half years. There nonetheless remained some reports of strong competition and weak market conditions restricting selling price increases.

Manufacturers remained (on average) on a cost cautious footing during April, as highlighted by a further scaling back of purchasing activity and further disinvestment of inventories. Holdings of raw materials and semi-manufactured goods as well as post-production stocks were depleted for the fourth month running.

Comment

Commenting on the Brazil Manufacturing PMI™ survey, Pollyanna De Lima, Economist at Markit, said:

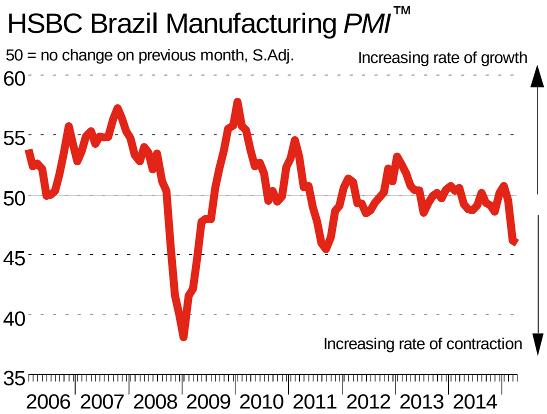
"The Brazilian manufacturing economy appears to be diving into recession, according to latest PMI data. Falling domestic and external demand led to further reductions in output during April, while the weak real pushed up input cost inflation by raising the cost of imported raw materials.

"Moreover, contractions in output, new orders and buying levels accelerated over the month, casting doubts on any hopes of a recovery in Q2. The employment index again highlights the extent of the problems currently affecting the manufacturing sector and the wider Brazilian economy, with job shedding being among the strongest in four years."

Key points

- Production and new orders decrease at sharp and accelerated rates
- Inflationary pressures intensify
- PMI at 43-month low

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