HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Manufacturing PMI™

Steepest job losses in almost six years as manufacturing downturn continues

Summary

The Brazilian manufacturing sector remained in contraction during May. Sharp declines in both output and new orders were registered again, with firms responding by trimming employment at the quickest pace since July 2009. Slower rises in input costs and output prices were noted, but in both cases inflation rates were above their respective long-run averages.

Falling fractionally from 46.0 in April to 45.9 in May, the seasonally adjusted *HSBC Brazil Purchasing Managers' Index™ (PMI™)* recorded its lowest level since September 2011. Deteriorating business conditions have now been noted for four months in succession.

May data pointed to a further contraction in output that, although slower than in April, was sharp and among the quickest in four years. According to companies, output decreased in tandem with falling new business and tough economic conditions. All three broad areas of the manufacturing sector posted reductions, with the fastest decline seen in consumer goods.

A fourth consecutive monthly decrease in incoming new work was registered in May. Moreover, the contraction in new business was little-changed from the sharp rate seen in April. Panellists indicated that demand had been suppressed by strong inflation rates and an increasingly fragile economy. New business from abroad also fell, although only slightly.

Lower production requirements and cost-cutting efforts resulted in further job losses in Brazil's manufacturing labour market. May saw the largest monthly fall in employment for almost six years, with job shedding noted across the three monitored market groups.

Purchase prices increased for the seventh successive month, amid reports of rising electricity and raw material costs. There were also comments that the dollar exchange rate had led to higher prices paid for imported inputs. Despite softening since April, the rate of inflation was robust and above its long-run average.

Part of the additional cost burden was passed on to clients, as factory gate prices were raised again in May. Charge inflation was also strong by historical standards, despite moderating since the prior month.

Inventory levels continued to be depleted in May. Reflecting the quickest fall in buying levels since September 2011, pre-production stocks decreased further. Holdings of manufactured goods contracted for the fifth straight month and at the most marked pace since March 2012.

A lack of pressure on suppliers' capacity resulted in shorter average lead times faced by Brazilian goods producers. Vendor performance improved to the greatest extent in almost six years during May.

Comment

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

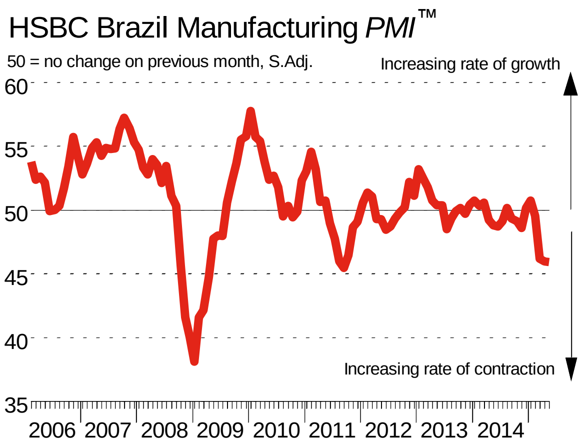
"May PMI data pointed to slower contractions in manufacturing output and order books, but the latest readings nevertheless suggest the downturn remains severe. Despite the weaker real, manufacturers continued to see contractions in foreign orders as firms' ability to price competitively deteriorated in face of higher costs for imported inputs.

"Consumer goods' downward spiral continues, as job cuts and strong inflation rates affected the sector. Domestic consumption appears to be suffering from restricted access to credit, with Brazil's Central Bank extending its tightening cycle in April as part of efforts to curb inflation. Given stubborn unemployment, the ongoing weakness of the domestic economy is likely to continue."

Key points

- Employment contracts at quickest rate since July 2009
- Further declines in new orders and output
- PMI at 44-month low in May

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 over 30 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.