HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Manufacturing PMI™

Business conditions deteriorate for fifth time in past six months in September

Summary

The latest PMI data indicated that Brazilian manufacturing operating conditions worsened in September, reversing the modest improvement recorded in August. The sector's overall contraction was reflected by the sub-indexes for output and new orders, which both fell below the crucial 50.0 threshold. Meanwhile, input and output prices fell simultaneously for the first time since August 2009.

Adjusted for seasonal influences, the *HSBC Brazil Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of manufacturing operating conditions – dropped from August's five-month high of 50.2 to 49.3 in September. The latest reading signalled a modest deterioration in business conditions. Sector data highlighted investment goods as the worst-performing among the three monitored categories.

As a result of the generally depressed state of the market and the upcoming election, production at Brazilian manufacturers declined at a moderate pace in September. Output fell quickest in the investment goods sub-sector, while a moderate expansion was observed at consumer goods companies.

Amid reports of weakening demand, new orders fell for the fifth time in the past six months in September. Moreover, the rate of contraction was the fastest since May, albeit modest overall. Reductions in order book volumes were registered in two of the three surveyed categories, with the exception being capital goods. Similarly, overseas business decreased marginally in September, following a fractional rise in August.

Buying activity among Brazilian manufacturers declined slightly for the first time in three months in September. Anecdotal evidence linked drops in purchasing activity to reduced production requirements.

Subsequently, stocks of raw materials and semi-manufactured goods fell fractionally in September, reversing the slight accumulation registered in August. Post-production inventories were broadly unchanged during the month.

Meanwhile, job shedding was recorded for the second successive month in September. When asked to explain job losses, panel members pointed to lower production requirements. By sub-sector, a sharp fall in staffing levels in the investment goods category was only partially offset by hiring elsewhere.

Downward cost pressures were evident for the first time in 61 months in September. Input prices fell in all of the surveyed categories apart from capital goods, where cost burdens were unchanged.

September data also indicated a monthly reduction in output prices, for only the second time in over two-and-a-half years. Panellists generally attributed lower selling prices to the depressed state of the market.

Comment

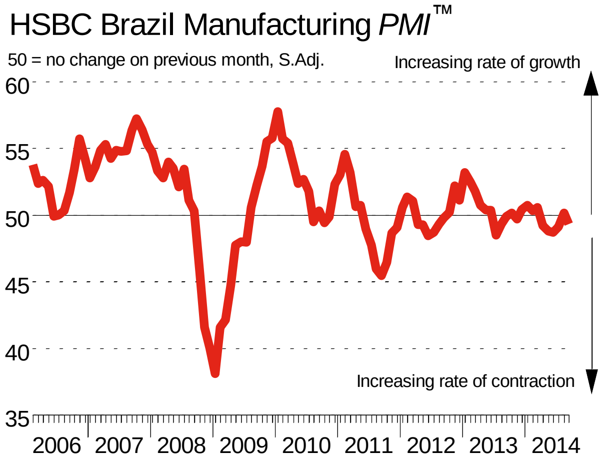
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"After an incipient recovery in August (50.2), the HSBC Brazil Manufacturing PMI is back below the neutral level, at 49.3 in September. This is the fifth time the index has shown a contraction in 2014. Only two out of the eleven sub-indexes remained above 50, suggesting a broad-based weakening. With the September figure, the manufacturing PMI closes the 3Q2014 at 49.6, suggesting that the Brazilian manufacturing industry remained in contraction after shrinking in 2Q."

Key points

- Output contracts following expansion in previous month
- Modest reductions in new orders and foreign business
- Input costs fall for first time in over five years

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