HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 10:00 (Sao Paulo), 1 August 2013

compiled by markit

HSBC Brazil Manufacturing PMI™

PMI signals first deterioration in operating conditions since September 2012

Summary

Reflective of lower foreign business and total new orders, Brazilian manufacturers reduced their output in July. Subsequently, the PMI fell to a 13-month low, and indicated that the country's manufacturing economy deteriorated for the first time since September 2012. Meanwhile, the depreciation of the real reportedly resulted in higher prices paid for inputs, with the rate of cost inflation accelerating to the fastest in over three years and charge inflation picking up to the sharpest in five years.

The seasonally adjusted HSBC Brazil *Purchasing Managers' Index*™ (*PMI*™) fell to its lowest reading in 13 months, posting 48.5 in July, down from 50.4 in the previous month. The latest reading indicated the first deterioration in manufacturing operating conditions across the country since September 2012. Four of the five PMI sub-indices negatively affected the index, the exception being suppliers' delivery times.

Production in the Brazilian manufacturing sector contracted in July, ending a ten-month expansionary sequence. Sector data indicated lower output at both intermediate and investment goods producers, whereas an increase was registered in the consumer goods sector. Weaker demand from both domestic and foreign clients resulted in a solid decline of incoming new business, one that was the sharpest since October 2011. Export business contracted for the fourth consecutive month, amid evidence of falling orders from Argentinian and European clients.

Faced with fewer projects, manufacturers reduced their workforce numbers further in July. Moreover, the rate of job shedding accelerated to the quickest in a year. Meanwhile, evidence of spare capacity was registered as unfinished business levels fell for the fifth consecutive month in July. The pace of backlog depletion was, however, only modest and little-changed from June.

Inflationary pressures persisted in July, with input costs rising at the fastest rate in over three years and charges increasing at the strongest rate since July 2008. Manufacturers commented that the depreciation of the Brazilian real had led to higher prices paid for imported raw materials.

In attempts to reduce the costs of inventory management, manufacturers reduced their stocks in July. That said, pre- and post-production inventories were both reduced at slight rates.

The quantity of inputs bought by Brazilian manufacturers fell in July. Panellists reporting a lower quantity of purchases indicated that this was a result of declining new orders. Nonetheless, vendor performance deteriorated further in the latest survey period, with anecdotal evidence suggesting that suppliers' delivery times were affected by protests.

Comment

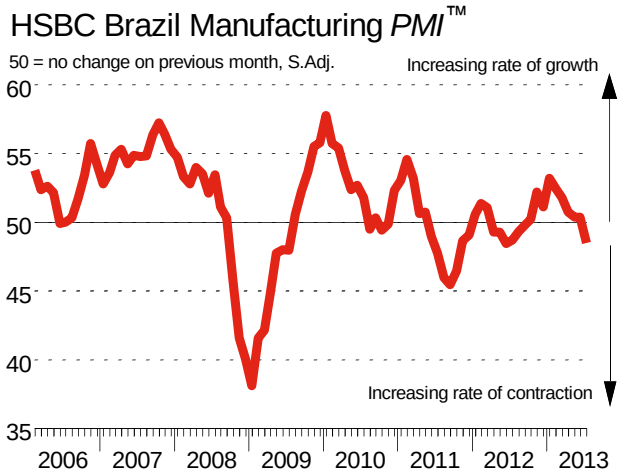
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The July HSBC Brazil PMI shows that economic activity in the manufacturing sector contracted for the first time since September 2012. The headline index fell from 50.4 in June to 48.5 in July, with output, new orders and export orders all below the 50 water-line. The loss of momentum observed in recent months evolved into an actual weakening of economic conditions, with negative implications for the next quarters."

Key points

- PMI at 13-month low in July
- Output, new orders and export business all contract
- Input prices rise at sharpest rate in over three years

Historical Overview



Sources: HSBC, Markit.

markit

HSBC

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

Renata Binotto, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5786
Email renata.binotto@hsbc.com.br

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

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7060-2047 / +44-781-581-2162
Email caroline.lumley@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 58 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 81 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 220,000 shareholders in 129 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 3,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

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