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HSBC Brazil Manufacturing PMI

PMI signalled recovery in Brazil's manufacturing sector after ten months of contraction

Summary

The Brazilian manufacturing economy took another step on the road to recovery in August. The seasonally adjusted HSBC *Purchasing Managers' Index*TM (PMITM) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – registered in positive territory for the first time in almost a year, signalling an improvement in the health of the industry. However, at 50.6, the PMI indicated only a marginal strengthening of operating conditions. Underpinning the rise in the headline index were upward trends in four of the five component indices (note: the Suppliers' Delivery Times Index is inverted in the calculation of the PMI).

Incoming new business to Brazil's manufacturing industry expanded in August for the first time in a year. Although the rate of increase was only modest, it was the fastest since July 2008. Data showed that growth of new work was centred on the domestic market, as new export orders continued to fall. Gains in total new orders were largely underpinned by improved economic conditions. Investments in new equipment (which led to better quality goods being produced), and the launch of new products were also commented on by panellists. However, data indicated that part of the rise in new work was supported by price discounting.

Competition forced manufacturers to cut their tariffs in August, and charges fell at a solid rate as a result. Meanwhile, average purchasing costs decreased only fractionally and at the weakest pace of the current sequence. The easing in the rate of decline reflected panel member reports that prices for certain commodities had risen.

In line with the upward trend in new orders, Brazilian manufacturers raised both their production levels and their buying activity for the first time in a year. However, output growth was moderate, while input purchases increased only marginally, and not fast enough to add to stocks of raw materials. Pre-production inventories contracted rapidly and at an accelerated pace as firms pursued cost-minimising stock-depletion policies.

Capacity pressures were felt by both Brazilian manufacturers and their suppliers in August. Backlogs of work at manufacturing plants built up slightly after twelve months of decline, while lead times lengthened for the first time since last October. However, some respondents attributed the latter to a poor quality of service from vendors.

Employment across Brazil's manufacturing sector was broadly unchanged in August. Cost savings and productivity gains were the primary reasons for job shedding where it was reported. The main factor cited by firms noting an increase in staffing numbers was greater production requirements.

Comment

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

"The manufacturing PMI came back to positive territory in August (50.6, on a seasonally adjusted basis) for the first time since September 2008. Although still a timid expansion, this result is encouraging, as the manufacturing industry has been the segment which suffered most from the collapse of external demand and the credit crunch in 4Q08.

"The dynamics of the domestic market remained the driver of the recovery, while employment was practically unchanged from last month after a period of systematic decline. The more pronounced expansion of output, combined with higher backlogs of work, suggests that capacity utilisation is starting to climb.

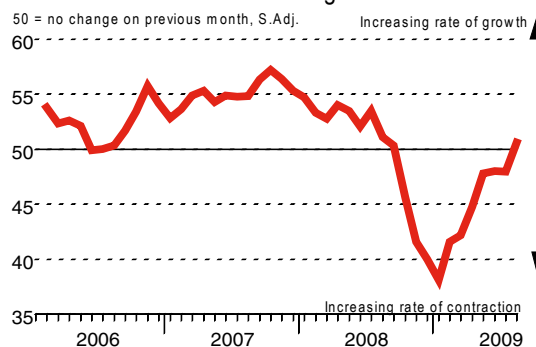
"All in all, the August reading is a favourable piece of news, and supports the view of a consistent recovery in industrial activity."

Key points

- Output rose at fastest pace since July 2008.
- New orders expanded for first time in a year.
- Employment broadly unchanged since July.

Historical overview

HSBC Brazil Manufacturing PMI



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Notes to Editors:

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 manufacturing companies. The panel is stratified geographically and by National Classification of Economic Activities (CNAE) group, based on regional and industry contribution to Brazilian Industrial Production.

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'.

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.

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.

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