

Embargoed until: 10:00 (SAO PAULO), 1 October 2009

HSBC Brazil Manufacturing PMI

Recovery in Brazil's manufacturing economy gained traction in September

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – continued to climb in September, reaching its highest level since July 2008. At 52.3, up from 50.6 in August, the headline index pointed to a moderate improvement in business conditions across Brazil's manufacturing economy.

Supporting the latest rise in the PMI were improvements in all five of its component indices (note, the Suppliers' Delivery Times Index is inverted in constructing the PMI). Output and new order growth accelerated to fourteen- and seventeen-month highs respectively, while employment expanded for the first time in a year. Concurrently, pre-production stocks contracted at the weakest rate of the current nine-month sequence.

Both domestic and foreign demand for Brazilian manufactures rose during the latest survey period – export sales for the first time since January 2008. Consequently, total incoming new work expanded at an accelerated pace. Firms linked gains in new business and improved economic conditions and successful promotional activities. To accommodate the rise in new orders, manufacturers raised production levels. Output grew for the second straight month and at a solid pace.

Data indicated a further build-up of pressure on manufacturers' capacities during September. Backlogs of work accumulated at an accelerated pace, while employment increased for the first time since September last year. However, job creation remained subdued in relation to the series' pre-crisis trend.

As demand for their goods strengthened in September, Brazilian manufacturers raised buying activity for the second consecutive month and at a faster pace. However, this rise in raw material purchases was not sufficient to build additional input stocks. Pre-production inventories fell at a modest pace, extending the current period of contraction to nine months. That said, the rate of decline eased sharply since August.

Brazilian manufacturers noted that vendor performance worsened during September, albeit more slowly than the series' long run average. Lead times lengthened at a slightly faster pace as demand for raw materials grew.

For the first time since January, manufacturers reported higher purchasing costs. Inflation was solid and the most marked since last December. Greater raw material, particularly steel, expenses underpinned the increase. Even so, the rise was subdued by historical standards.

Despite higher input costs, Brazil manufacturers continued to reduce their charges in September, which firms linked to strong competition. However, the latest decrease was only marginal and the mildest of the current ten-month sequence of decline.

Comment

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

"The September reading of the HSBC Brazil manufacturing PMI shows that the manufacturing industry is gaining momentum, with a rise in the seasonally adjusted headline index to 52.3 (compared with 50.6 in August) being supported by an improvement encompassing all its components.

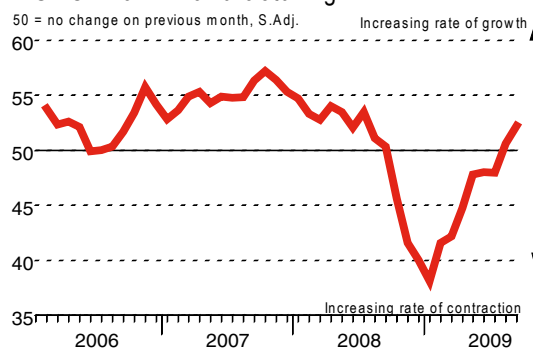
"The output component showed its second consecutive reading above the critical threshold (50.0), auguring good results for other industrial production data for the whole of 3Q09. The strong acceleration of the new orders component and the first expansionary reading of the employment component since September last year (51.0 - a strong recovery from the series record low of 38.0 last January) are also positive indications for industrial activity over the next few months."

Key points

- Growth of new orders and output accelerated.
- Employment rose for the first time in a year.
- Input price inflation recorded after seven months of declining costs.

Historical overview

HSBC Brazil Manufacturing PMI



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Notes to Editors:

The HSBC Brazil Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) 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'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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