

HSBC Brazil Manufacturing PMI

PMI gained ground in October, signalling solid improvement in business conditions

Summary

Operating conditions in the Brazilian manufacturing economy showed further improvement at the start of Q4, with the rate of expansion the fastest since April 2008. The headline HSBC Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – climbed to 53.7 in October, from 52.3 in September, to show a robust strengthening in the health of the industry.

Supporting the improvement in the business environment were rises in output, new orders and employment, although these were not enough to encourage manufacturers to rebuild their inventories.

Brazilian manufacturing production increased for the third month running in October, and at a marked rate that was the fastest since January 2008. Driving this rise in manufacturing activity was a similarly strong expansion of new business. Panellists cited better economic conditions and improved demand as the main factors behind the gains. Data showed that the primary source of growth was the domestic market, as new work from abroad increased at a weaker rate.

There was evidence of capacity constraints at Brazilian manufacturers in October, as backlogs built up at a robust pace and workforces were further enlarged. Both outstanding business and staffing numbers rose at accelerated rates, in line with the trend in new orders.

To accommodate greater production requirements, Brazilian manufacturers acquired more inputs in October. Buying activity grew at a solid rate, despite higher raw material prices.

Input cost inflation gained pace during the latest survey period. Data signalled a marked rate of increase that was the fastest for eleven months. Greater raw material prices underpinned the rise, according to panellists. Particular references were made to the cost of steel, aluminium, paper and food.

For the first time in almost a year, Brazilian manufacturers were able to take advantage of favourable demand conditions and pass on part of their increased cost burdens to customers. However, output price inflation was only weak and below the series' pre-crisis trend.

Comment

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

"The Brazilian industrial sector showed a more vigorous pace of expansion in October, with the seasonally adjusted Brazil Manufacturing PMI reaching 53.7. This level is the highest since April 2008, but still slightly below the very positive average of 55.1 registered on the year 2007.

"The rises in the very important output and new orders indexes suggest that the expansion process should continue at a robust pace over the next few months. The more positive employment index reading (signalling a second expansion in a row) also points to increased business confidence, and is consistent with the trend shown by the net formal job creation statistics from the Ministry of Labour. Last but not least, manufacturing companies are finally regaining pricing power, with the output prices index showing growth for the first time since November 2008."

Key points

- PMI reached one-and-a-half year high.
- Output and new order growth accelerated.
- Input price inflation picked up while charges rose for first time in eleven months.

Historical Overview



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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: 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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