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HSBC Brazil Manufacturing PMI

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

Key findings:

- 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.

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.

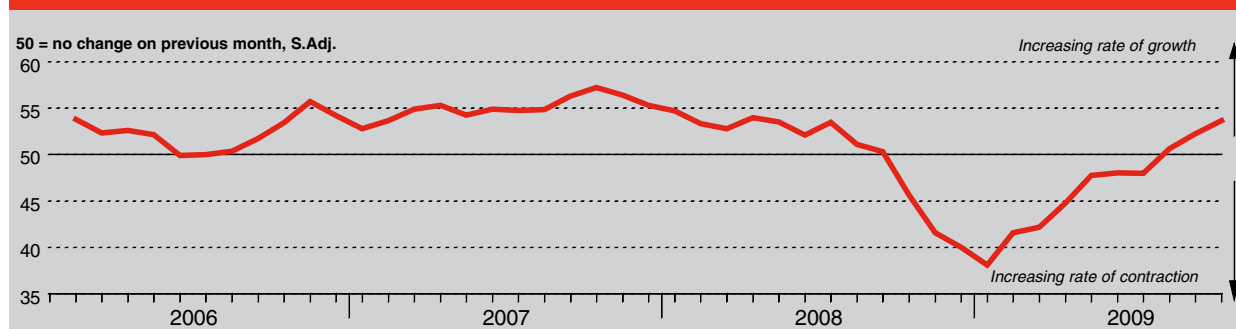
Input cost inflation gained pace during the latest survey period. Data signalled a marked rate of increase that was the fastest for eleven months. Greater raw material prices underpinned the rise, according to panellists. Particular references were made to the cost of steel, aluminium, paper and food.

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.

Suppliers' delivery times continued to lengthen in October, with average vendor performance deteriorating at a broadly similar pace to August. This was despite faster growth of raw material purchases, as input buying rose at the sharpest rate for eighteen months.

Both pre- and post-production inventories fell further at the beginning of the year's final quarter. Stocks of both inputs and finished goods have been in decline for the past ten months. While holdings of raw materials dropped at a weaker rate in October, reflecting quicker growth of buying activity, stocks of completed products contracted faster than in September.

HSBC Brazil Purchasing Managers' Index (PMI™)

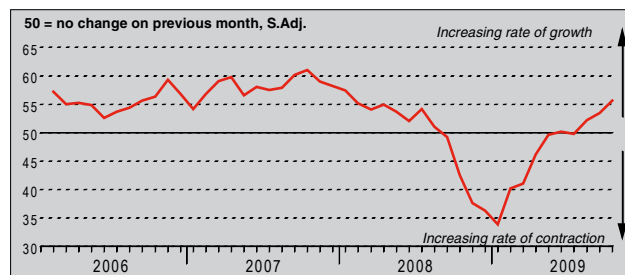


The HSBC Brazil Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	30.9	45.2	23.9	7.0
	Jun	21.8	59.1	19.2	2.6
	Jul	17.6	64.4	18.0	-0.3
	Aug	31.9	48.2	19.9	12.0
	Sep	24.5	64.2	11.3	13.1
	Oct	25.5	66.0	8.5	17.0

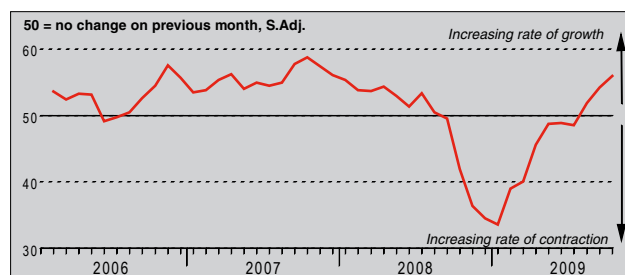


Brazilian manufacturing production expanded at an accelerated pace at the start of the year's final quarter. Posting its highest reading for twenty-one months, the seasonally adjusted Output Index signalled a marked rise in manufacturing activity. Over one-quarter of the survey panel raised production during October, attributing this to better sales performance. In contrast, less than 9% of companies cut output levels since September.

New Orders Index

Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	28.4	42.9	28.7	-0.3
	Jun	22.1	54.1	23.8	-1.7
	Jul	17.5	61.6	20.9	-3.4
	Aug	35.2	40.3	24.5	10.7
	Sep	28.6	59.8	11.6	17.0
	Oct	25.9	64.2	9.8	16.1

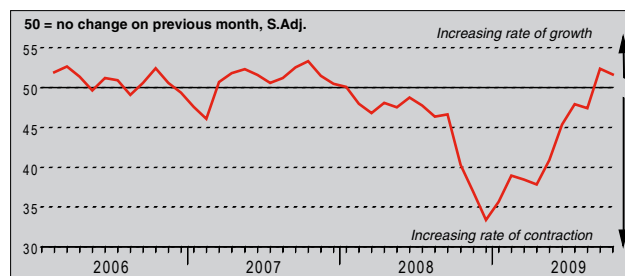


Volumes of new work taken by Brazilian manufacturers rose for the third month running in October, and at a marked pace. The New Orders Index has risen in each of the past three months, and signalled that the latest increase was the most pronounced since December 2007. Improved demand stemmed from more favourable economic conditions, according to panel member accounts. Data showed that increased new business from domestic sources was the primary driver of the overall expansion.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	10.5	61.6	27.9	-17.4
	Jun	11.9	69.9	18.1	-6.2
	Jul	18.0	64.3	17.6	0.4
	Aug	14.7	63.5	21.8	-7.1
	Sep	16.8	72.8	10.3	6.5
	Oct	13.1	77.8	9.1	4.0

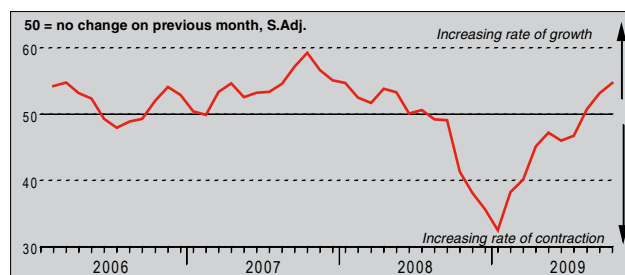


Foreign orders for Brazilian manufactures grew for the second month running during October. Panel members noted that conditions on export markets had improved, allowing some companies to expand their product ranges into new areas. Some respondents reported that demand from the US had improved, despite a stronger real. Although the rate of increase slowed over the month, the modest pace of expansion remained faster than the series' pre-crisis trend.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	24.7	47.9	27.4	-2.7
	Jun	16.9	59.3	23.7	-6.8
	Jul	17.0	62.2	20.8	-3.8
	Aug	29.2	50.0	20.8	8.4
	Sep	25.8	61.3	12.9	12.9
	Oct	24.6	65.0	10.4	14.2

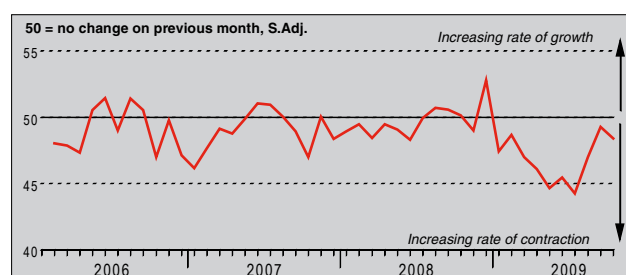


Capacity pressures at Brazilian manufacturing plants continued to build in October as workloads increased. After accounting for seasonal variation, the Backlogs of Work Index climbed to a twenty-one month high and pointed to robust growth of outstanding business. Work-in-hand across the sector has risen for three straight months, following a year-long period of decline. Approximately one-quarter of surveyed firms saw backlogs accumulate since September, whereas only one-tenth noted a fall.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	20.3	48.0	31.8	-11.5
	Jun	13.9	65.2	20.9	-7.0
	Jul	9.6	72.3	18.2	-8.6
	Aug	20.7	56.9	22.4	-1.7
	Sep	14.8	71.5	13.7	1.1
	Oct	9.3	76.8	13.8	-4.5

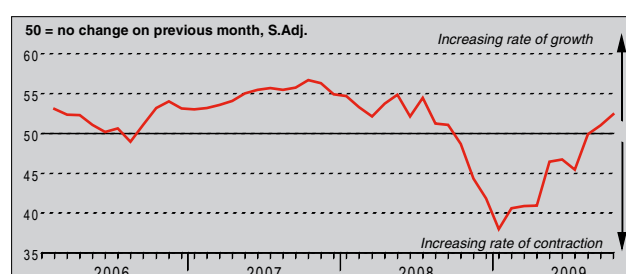


The latest increase in Brazilian manufacturing production was not sufficient to build additional stocks of finished goods in October. Post-production holdings contracted for the tenth successive month, and at an accelerated pace. Even so, the rate of decline remained weaker than the average for that sequence. Around 14% of respondents recorded a decrease in inventories, which they predominantly linked to higher-than-expected sales volumes.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	14.1	67.8	18.1	-3.9
	Jun	8.1	76.9	15.0	-6.8
	Jul	7.1	77.6	15.3	-8.2
	Aug	13.3	73.8	13.0	0.3
	Sep	9.3	86.5	4.3	5.0
	Oct	13.9	81.7	4.4	9.5

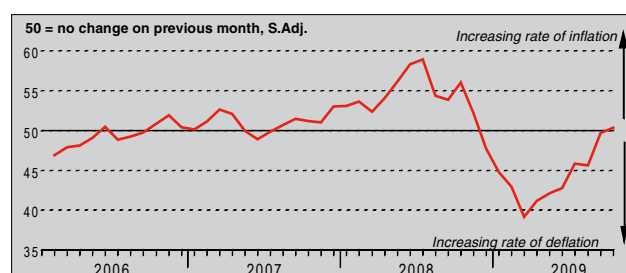


Brazilian manufacturers continued to enlarge their workforces during October. Moreover, employment growth gained pace since September to the fastest for fifteen months. The latest rise was moderate, reflecting greater production requirements and the need to expand capacity. Around 14% of companies hired staff on the month, compared with just 4% that streamlined personnel numbers. However, the rate of job creation was still muted in relation to the average prior to the downturn (up to September 2008).

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	6.7	72.5	20.8	-14.1
	Jun	3.9	78.8	17.3	-13.4
	Jul	4.8	82.5	12.7	-7.9
	Aug	8.4	74.3	17.2	-8.8
	Sep	7.5	84.6	7.9	-0.4
	Oct	7.3	87.1	5.7	1.6

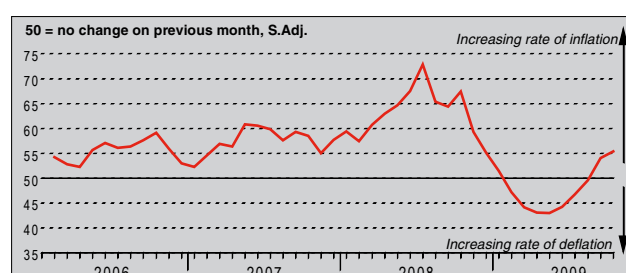


Prices charged for Brazilian manufactures rose at the start of Q4 for the first time in almost a year. That said, inflation was only marginal and below the series' pre-crisis trend, with only 7% of panellists raising their tariffs against almost 6% cutting them. Factory gate prices were raised primarily to defend profit margins from erosion by greater input costs. However, the vast majority of manufacturers (87%) left output prices unchanged on the month.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	11.9	65.2	22.8	-10.9
	Jun	6.8	76.6	16.6	-9.7
	Jul	7.4	81.1	11.4	-4.0
	Aug	16.9	67.4	15.6	1.3
	Sep	16.0	80.9	3.2	12.8
	Oct	15.1	80.5	4.4	10.7

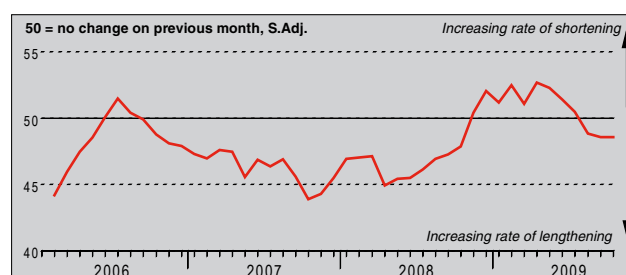


Higher raw material prices drove the latest round of input cost inflation, survey responses showed in October. Steel, aluminium, paper products and food stuffs were particularly noted by Brazilian manufacturers as having gone up in price. The seasonally adjusted Input Prices Index gained ground since September, reaching an eleven-month high and signalling a marked rate of increase. However, inflation remained below the survey's historical average.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-
2009	May	10.8	83.0	6.2	4.6
	Jun	6.8	89.9	3.2	3.6
	Jul	6.4	88.2	5.4	1.0
	Aug	7.3	83.1	9.6	-2.3
	Sep	4.6	87.6	7.8	-3.2
	Oct	4.7	88.1	7.2	-2.5

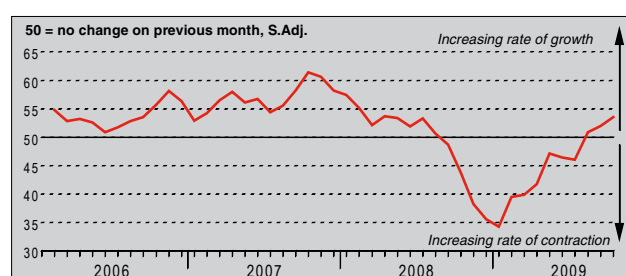


The seasonally adjusted Suppliers' Delivery Times Index was unmoved in October from its position in the previous month, signalling another slight deterioration of average vendor performance. Survey participants linked the further lengthening of lead times to both stronger demand for inputs and transportation-related problems. Delivery times have risen for three months running, in line with the upward trend in raw material purchases by Brazilian manufacturers.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	26.6	44.9	28.5	-2.0
	Jun	17.9	58.1	24.0	-6.2
	Jul	15.2	63.5	21.3	-6.1
	Aug	31.6	44.9	23.6	8.0
	Sep	23.1	61.6	15.3	7.8
	Oct	22.3	68.2	9.4	12.9

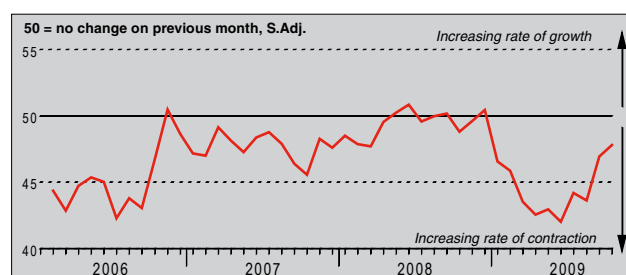


Greater demand for Brazilian manufactures led companies in the sector to up their raw material purchases during the latest survey period. Buying activity has risen for three consecutive months, and at increasing rates. The latest reading from the seasonally adjusted Quantity of Purchases Index pointed to a solid expansion of input buying in October. Over 22% of firms recorded growth, compared with just 9% that noted a reduction.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	May	17.6	50.2	32.2	-14.6
	Jun	9.4	66.1	24.4	-15.0
	Jul	7.1	74.6	18.3	-11.2
	Aug	15.3	58.5	26.2	-10.9
	Sep	11.4	73.9	14.6	-3.2
	Oct	9.8	78.5	11.7	-1.9



Brazilian manufacturers continued to deplete existing holdings of raw materials to meet production requirements in October. Consequently, pre-production inventories contracted for the tenth straight month. However, the seasonally adjusted Stocks of Purchases Index rose slightly to its highest level of that sequence, indicating a further easing in the rate of reduction. This slowdown reflected faster growth of input purchases.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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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