

HSBC Brazil Manufacturing PMI

PMI driven to highest level for two years by faster expansions in output, new order and employment

Summary

The headline seasonally adjusted Brazil Manufacturing PMI™ continued its upward trend in November, hitting a two-year high. At 55.5, up from 53.7 in October, the PMI signalled a marked expansion of Brazil's manufacturing economy. Furthermore, the latest reading was above the average for the series until September 2008, prior to the recent downturn caused by the global financial and economic crises.

Underlying demand for Brazilian manufactures increased during November, as indicated by a sharp rise in total new business. Data indicated that growth primarily stemmed from the domestic market, as new export orders were largely unchanged on the month. Companies linked improved domestic demand to better economic conditions in Brazil. Anecdotal evidence suggested that foreign demand weakened mainly as a result of a strong real and difficult business conditions in export markets.

Mirroring the trend in overall new business, Brazilian manufacturing production expanded at a considerable pace during the latest survey period.

The expansionary sequence in employment extended to three months in November as production requirements grew. Brazilian manufacturers hired staff at a robust pace that was the fastest since July 2008.

Manufacturers acquired raw materials at a marked pace during November to accommodate faster production. However, the rate of increase was not enough to replenish inventory levels and pre-production stocks continued to fall at a moderate pace.

Input price inflation was unchanged from the robust pace recorded in October, but remained weaker than the series long-run trend. Higher fuel and raw material costs underpinned the increase, with panellists making particular reference to oil, metals, food and paper products prices.

Charge inflation eased to near-stagnation during November, as more firms maintained their tariffs over the month. Where respondents raised output prices, this was mainly to pass on greater cost burdens to customers. Conversely, where charges were lowered, panel members commented on competitive pressures.

Comment

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

"The Brazilian industrial sector expanded at a robust pace in November, as shown by the seasonally adjusted Brazil manufacturing PMI reaching 55.5. This is the highest level since November 2007.

"The output and new orders indices rose further in November. The expansions of new orders and output are prompting quicker purchases of raw materials and components, but this has not been enough to build higher inventories. Industrial employment completes the favourable picture, growing for the third consecutive month, and at a faster pace.

"Given the lower levels of stocks and the strong consumer confidence as we head into Christmas period, it is reasonable to expect that the sector will continue to expand strongly in December too."

Key points

- Output and new orders rose sharply.
- Job creation accelerated to robust pace.
- Input price inflation remained robust while charges were broadly unchanged.

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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