

HSBC Brazil Manufacturing PMI

PMI climbed higher in December to signal robust improvement in operating conditions.

Summary

The headline seasonally adjusted Brazil Manufacturing PMI™ rose slightly since November, hitting its highest level for just over two years. The latest reading signalled a robust improvement in the health of the Brazilian manufacturing economy. Underlying this expansion were faster increases in output and employment, while new order growth remained sharp.

New work received by Brazilian manufacturers expanded at a substantial pace at the end of the final quarter, although growth slowed slightly since November. Anecdotal evidence suggested that better economic conditions had supported demand. Data indicated that growth of total new business was driven by the domestic market, as incoming new work from abroad contracted slightly on the month, which panel members linked to unfavourable exchange rates.

Substantial new order growth led Brazilian manufacturers to expand production during December. Output rose for the sixth time in seven months, and at the fastest rate since October 2007.

Unfinished business and employment both increased during the latest survey period, pointing to the existence of capacity pressures in Brazil's manufacturing industry. Staffing numbers expanded at a robust rate that was the fastest for seventeen months.

Brazilian manufacturers bought more raw materials in December to accommodate higher production levels. However, the substantial rise in buying activity was not sufficient to rebuild diminished inventories, being offset by a sharper rise in output. Consequently, pre-production stocks were unchanged on the month.

Suppliers' delivery times lengthened at the end of Q4, as demand for raw materials at Brazilian manufacturers strengthened. Data showed that average vendor performance deteriorated only slightly, and at a milder rate than during November.

Both input and output prices increased during December. Input price inflation was robust and little-changed since the previous month. Purchasing costs have risen continuously since September, with firms citing greater raw material expenses. Respondents made particular reference to higher metals and plastics prices during the latest survey period.

Manufacturers were able to raise their charges in December, taking advantage of favourable demand conditions. Factory gate prices increased at a pace that, although moderate, was the strongest for over a year.

Comment

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

"The Brazilian industrial sector continues to expand at a robust pace. The seasonally adjusted Brazil Manufacturing PMI hit 55.8 in December, up from 55.5 in November - its highest level since November 2007.

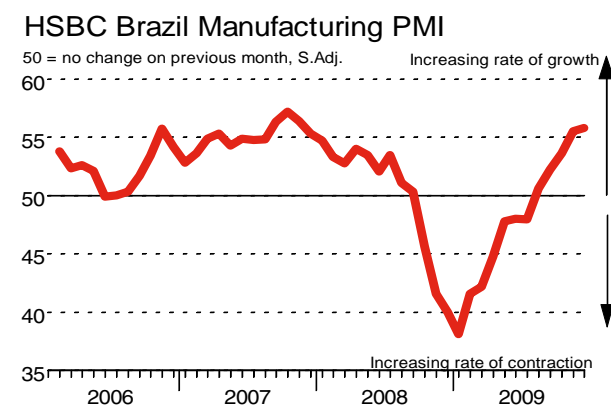
The output index continued to rise in December responding to improving demand conditions – still mostly focused on the domestic market. High new orders, coupled with an effort to keep more adequate levels of inventories, suggest faster production growth ahead and improved economic conditions at the turn of the year.

This is likely to put further pressure on capacity, already noticeable by higher backlogs of work and accelerating rates of employment growth, and suggests increasing inflationary risks ahead, although the output price index still shows pressures are relatively contained at the moment."

Key points

- Manufacturing production growth accelerated again.
- New orders rose sharply.
- Input price inflation remained solid, while charges rose faster.

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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