

## HSBC Brazil Manufacturing PMI

PMI hit series record peak in January, supported by faster growth of output, new orders and employment

### Summary

Brazilian manufacturing had a promising start to the New Year, with the sector expanding at a considerable pace. This was shown by the headline seasonally adjusted Brazil Manufacturing PMI™, which climbed to 57.8 in January, its highest level since data were first available in February 2006.

Driving the latest rise in the PMI were series record expansions in three of its five component variables (output, new orders and input stocks). Meanwhile, employment rose at the fastest pace since November 2007 and vendor performance deteriorated at the sharpest rate for seventeen months (note: the Suppliers' Delivery Times Index is inverted in the calculation of the PMI).

Total new work increased sharply in January, leading firms to raise production levels by a similar extent (although stock-building was also a contributing factor). Data indicated that the primary driver of overall new order growth was domestic demand, as new export business expanded only modestly on the month. Reports suggested that improved global economic conditions supported sales volumes.

Encouraged by stronger demand for Brazilian manufactures, companies replenished their inventories in January. Both pre- and post-production stocks were built-up for the first time in over a year. This was accomplished via quicker expansions in buying activity and production respectively.

Higher demand for raw materials resulted in the fastest deterioration in average vendor performance since August 2008. Lead times on input deliveries to Brazilian manufacturers have now lengthened for six straight months.

Greater workloads put further pressure on manufacturers' resources during the latest survey period. Backlogs accumulated at a considerable and accelerated pace since December. Consequently, firms took on more staff to increase capacity. Employment expanded at a marked pace that was above the series' pre-downturn trend.

Manufacturers in Brazil recorded another strong rise in their average purchasing costs at the start of Q1. The index tracking movements in input prices trended sideways for the fourth month running, signalling a broadly constant rate of inflation over this period. Anecdotal evidence suggested that higher raw material costs underpinned the latest increase. Respondents made particular reference to greater prices for metals, plastics, leather and food-related products.

Favourable demand conditions allowed manufacturers to raise their charges again. Although only moderate, the rate of increase was the most marked since November 2008.

### Comment

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

*"The Brazilian manufacturing industry expanded at a survey record pace in January. The Manufacturing PMI reached 57.8, up from December's 55.8, with all five of its components supporting the strong performance of the composite indicator.*

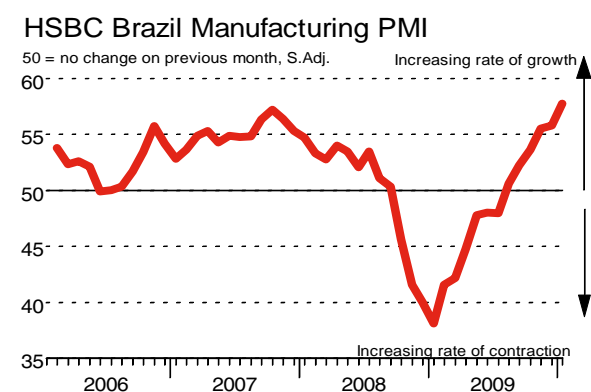
*"In our view, the particularly strong growth of output, new orders and input stocks – all of them reached series record peaks – indicate further vigorous expansions in manufacturing going forward. Employment also grew faster, but as a variable that normally lags production, its expansion fell short of the three components mentioned above. Last but not least, charges rose, albeit modestly, for the fourth month in a row.*

*"All in, January's Brazil Manufacturing PMI confirms the very favorable dynamics of manufacturing activity. This highlights the concern recently expressed by the BCB, that the quick reduction of idle capacity could result in increased inflation pressures."*

### Key points

- Production, new business and input stocks all expanded at series record rates.
- Job creation fastest for over two years.
- Input prices rose strongly. Charge inflation was moderate.

### 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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