

HSBC Brazil Manufacturing PMI

PMI down from January's series record peak in February, but still signalled marked improvement in manufacturing business conditions

Summary

Brazil's manufacturing economy expanded at a marked rate in February, although growth cooled following January's series-record performance. Both output and new orders grew strongly, while job creation accelerated again. However, there was further evidence of rising price pressures, as higher demand for raw materials, capacity constraints at suppliers and unfavourable exchange rates pushed up input prices.

The headline seasonally adjusted Brazil Manufacturing PMI™ slipped from January's survey high of 57.8 to 55.8 in February. The drop represented a weaker expansion of the sector. Nevertheless, the latest reading signalled a marked improvement in operating conditions.

Total incoming new business expanded for the seventh month running in February, although the latest increase was the mildest since last October. Both domestic and foreign sales rose on the month, however data showed that the former remained the primary driver of overall new order growth. Anecdotal evidence suggested that a combination of better global economic conditions and successful promotional activities underpinned gains in new work.

Backlogs continued to build at Brazilian manufacturers as workloads increased during the second month of 2010, suggesting pressure on operating capacity. Correspondingly, output rose at a slightly slower pace than new orders.

Employment and buying activity were raised in February – both to accommodate current production requirements and in anticipation of improved demand going forward. Staffing increased at a firm pace that was the fastest since October 2007, while raw material purchases grew markedly (albeit more slowly than over the previous two months).

Stronger demand for raw materials led to longer lead times, as suppliers faced capacity constraints. Vendor performance has now deteriorated for seven consecutive months.

Input stocks were broadly unchanged on the month. Where inventories fell, this was mainly attributed to delays on raw material deliveries. Meanwhile, larger holdings were linked to efforts to re-stock amid an improving business environment.

Input price inflation accelerated to a considerable pace during the latest survey period. Firms noted greater prices for raw material and a weak real against the US dollar. Favourable demand conditions enabled manufacturers to pass on part of these cost increases to customers by way of higher charges. Output prices rose for the fifth month running, although the latest increase was only moderate and below the pre-downturn trend.

Comment

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

"Falling to 55.8 in February from a record level of 57.8 in January, the HSBC Manufacturing PMI indicated a slowdown in the pace of expansion of Brazil's manufacturing industry. Nevertheless, the current reading, which is on a par with December's, still signalled a strong improvement in economic conditions.

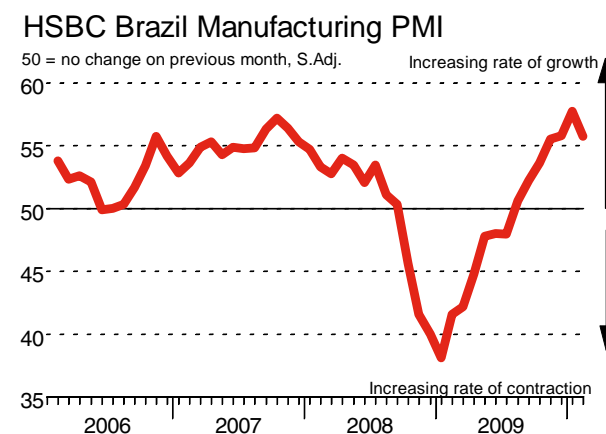
"The output and new orders components continue to show strong growth, with benign implications for job creation - the employment component continued to indicate accelerating growth.

"All in, February's Brazil Manufacturing PMI survey continues to suggest that the BCB is right to be concerned with the inherent risks of this scenario. The combination of strong manufacturing activity with improving labour markets intensifies the inflationary risks of an environment which already shows price and capacity pressures at both companies and suppliers."

Key points

- Output and new order growth slowed, but remained above pre-downturn trends.
- Employment increased at fastest pace since October 2007.
- Input price inflation accelerated to marked rate.

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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