

## HSBC Brazil Manufacturing PMI

Brazilian manufacturing production growth remained considerable in March, while price pressures continued to mount

### Summary

At 55.4 in March, the headline seasonally adjusted Brazil Manufacturing PMI™ was little-moved from February's reading of 55.8. The latest figure, which reflected strong growth of output, new orders and employment, pointed towards another marked expansion of Brazil's manufacturing economy. Moreover, the rate of improvement in operating conditions remained above the series' pre-downturn trend. Looking at the performance for the quarter as a whole, data suggest that 2010 Q1 was the best-performing quarter for Brazil manufacturing since 2007 Q4.

Although new business growth eased for the second month running from January's series record high, the latest increase was nonetheless robust. Sector data revealed that the domestic market continued to propel the expansion in total new business, as incoming new work from abroad rose only marginally during March. Respondents stated that stronger worldwide economic conditions had supported demand for Brazilian manufactures. Manufacturers raised production levels at a similarly marked pace to the increase in new business.

As workloads rose in March, companies noted another build-up of backlogs. Outstanding business accumulated for the eighth month in succession, suggesting that capacity constraints remained an issue within the sector. However, growth eased since February to a more moderate pace that was the weakest since September 2009.

Another round of job creation was recorded across the Brazilian manufacturing industry in March. Staffing numbers rose at a marked pace, albeit more slowly than during the first two months of the year. Panellists widely commented on greater workloads.

To accommodate higher production requirements, companies bought additional raw materials at the end of the first quarter. Purchasing activity rose strongly and at a similar rate to that recorded in February. However, the increase was not sufficient to build up stocks of inputs, which remained broadly unchanged on the month.

Suppliers' delivery times continued to lengthen in March, as demand for inputs grew further. Firms noted a solid deterioration in average vendor performance since February.

Both input and output price inflation accelerated during March, the latter primarily in reaction to the former. Manufacturers indicated that greater raw material and fuel costs, alongside unfavourable exchange rates, drove the latest rise in purchasing prices. However, while charge inflation was above its pre-crisis average, input cost inflation remained below it.

### Comment

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

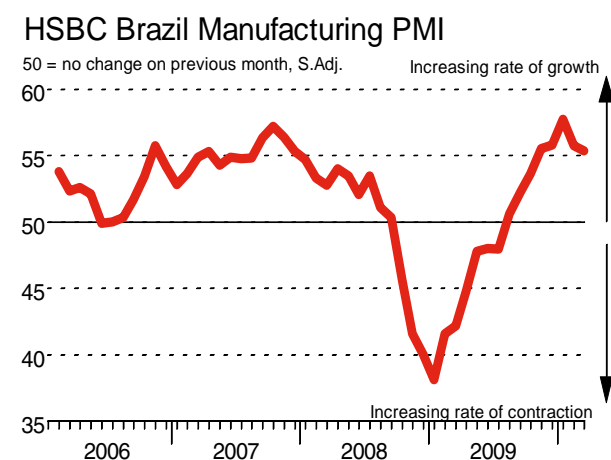
*"HSBC Manufacturing PMI data showed another marked expansion of Brazil's manufacturing economy in March. However, at 55.4, the index was slightly lower than in February (55.8). Nevertheless, the output and new orders components, which were very close to the previous month's levels (the output index was marginally higher), pointed to strong growth and augured good results for the official industrial production figures to be released early May.*

*"The employment component continued to indicate strong job creation in the sector, although it was slightly lower than in February. Meanwhile, the backlogs of work and the quantity and stocks of purchases indices suggested more intense production activity, although not as strong as at the beginning of the year, when stock piling and capacity issues looked more urgent. Last but not least, both input and output price inflation kept mounting"*

### Key points

- Expansions in both total new orders and employment eased, but remained marked.
- New work from abroad rose only slightly.
- Input and output price inflation accelerated.

### Historical Overview



## For further information, please contact:

### HSBC

Andre Loes, Chief Economist, Brazil

Telephone +55-11-3371-8184

Email [andre.a.loes@hsbc.com.br](mailto:andre.a.loes@hsbc.com.br)

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil

Telephone +55-11-3847-5785

Email [aseidl@hsbc.com.br](mailto:aseidl@hsbc.com.br)

### Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email [gemma.wallace@markit.com](mailto:gemma.wallace@markit.com)

Caroline Lumley, Markit Press Office

Telephone +44-20-7260-2047

Email [caroline.lumley@markit.com](mailto:caroline.lumley@markit.com)

### 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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