

HSBC Brazil Manufacturing PMI

Output and new order growth eased but still robust in April, while price pressures continued to mount

Summary

Latest survey data pointed to another improvement in business conditions faced by Brazilian manufacturers at the start of the second quarter. Although growth of output, new business and employment all slowed in April, it remained robust in all three cases. However, foreign demand weakened since March, resulting in a slight dip in new export orders. Meanwhile, both input and output price pressures continued to build, primarily driven by rising raw material costs.

The headline seasonally adjusted Brazil Manufacturing PMI™ posted its lowest reading for six months in April. At 53.8, down further from January's survey record high of 57.8, the index pointed to another slowdown in the rate of improvement in operating conditions. Nevertheless, the latest reading signalled that the industry's health strengthened solidly and at a faster pace than the twelve-month series average.

New business placed with Brazilian manufacturers increased in April. Anecdotal evidence suggested that a combination of better economic conditions and company expansions into new areas supported demand. However, data indicated that growth was centred on the domestic market, as new export orders fell marginally. Although solid, the rise in total new work was the mildest since August last year.

Production levels at Brazilian manufacturers increased for the ninth month in succession during the latest survey period, albeit at a slower pace. Firms stated that activity was raised in response to further new order growth.

Backlogs continued to build at manufacturing units during April, which companies linked to greater workloads. However, the pace of increase moderated since the previous month to a more modest rate, reflecting smaller gains in new business.

Brazilian manufacturers hired additional workers and built up inventories in April to accommodate greater production requirements. Staff were taken on at a robust pace and for the eighth consecutive month. Meanwhile, input stocks accumulated more quickly on the back of a solid rise in buying activity. Holdings of finished goods increased at a marginal pace.

Stronger demand for raw materials resulted in another solid deterioration in average vendor performance. However, lead times lengthened at the weakest rate since January.

Greater raw material costs was the primary driver of both input and output price inflation in April. Growth of purchasing costs was considerable, while charges rose at a solid pace. Increases in both variables were the most marked for one-and-a-half years. Reports indicated that the rise in factory gate prices also partly reflected favourable demand conditions.

Comment

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

"Business conditions in Brazil's manufacturing economy improved at a weaker rate during April, according to HSBC's Manufacturing PMI. At 53.8, it was lower than March's reading (55.4). Although the lowest since October 2009, the latest reading still points to a robust expansion of the sector. The output and new orders indices fell more markedly than the headline index, suggesting that this slower improvement in operating conditions could persist for a while. The employment component also showed a slight deceleration in the rate of growth."

"Reflecting further output growth, the finished goods stocks index indicated a larger expansion than in previous month. Although the expansion in production may have peaked for a while, its lagged effects on prices are still mounting - both output and input prices inflation picked up in April, especially the latter - supporting the recent decision of the COPOM of resuming monetary tightening in Brazil."

Key points

- Production, new business and employment growth all slowed further.
- New export orders fell slightly.
- Both input and output price inflation continued to accelerate.

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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