**HSBC Purchasing Managers' Index Press Release**

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compiled by markit

# HSBC Brazil Manufacturing PMI

Output and new order growth eased to nine-month lows in May. Input price inflation moderated slightly, but remained strong

## Summary


Although operating conditions across Brazil's manufacturing economy continued to strengthen in May, as signalled by a headline seasonally adjusted Brazil Manufacturing PMI™ reading of 52.4, the rate of improvement slowed for the fourth month running from January's series record peak (57.8). The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy. Underlying the fall in the headline index were weaker expansions in output, new orders, employment and input stocks.


Brazilian manufacturers raised activity levels in response to further gains in new work. Both output and new business rose moderately since April, but at the weakest rates for nine months. Moreover, the expansions were slower than their respective long-run series trends for the first time since August last year. Weighing on total levels of new work was another slight decline in new export orders. Companies stated that an unfavourable exchange rate against the euro, the crisis in the Eurozone and competitive pressures (particularly from China) had resulted in lower external demand. Consequently, data suggested that the domestic market was the primary support of new business growth.

Further job creation was recorded by Brazilian manufacturers in May. Employment levels rose for the ninth consecutive month as companies made efforts to expand capacity and accommodate higher demand. However, the rate of expansion moderated for the third straight month, in line with the slower rise in workloads.

Manufacturers continued to restock in May. Both pre- and post-production inventories rose on the month, although in each case this was at only a marginal rate that was weaker than during April. Anecdotal evidence suggested that stock building reflected good business conditions and higher production requirements.

As demand for inputs rose in May, Brazilian manufacturers noticed another deterioration in vendor performance. Lead times lengthened at a solid and accelerated pace on the month, which panellists also linked to raw material shortages.

Price pressures eased slightly during May, with increases in both input and output prices slowing. However, both measures remained above their long-term trends, with average purchasing costs continuing to increase sharply. Panel members indicated that greater raw material prices drove the latest round of input cost inflation. Meanwhile, charges were lifted to protect profit margins from rising costs.

## Comment

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

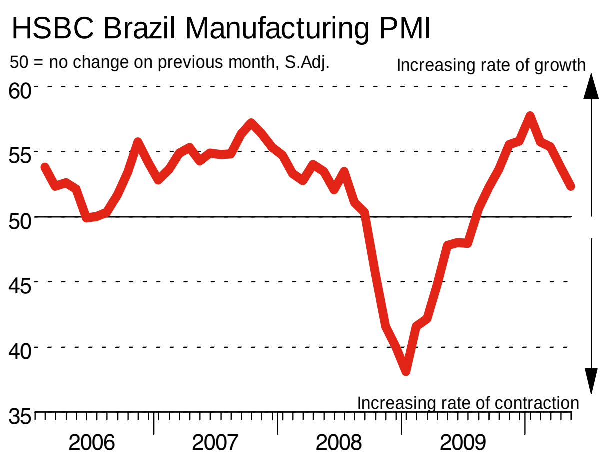
*"The expansion of the manufacturing economy in Brazil slowed again in May, with HSBC's Manufacturing PMI registering its lowest reading since September 2009 (52.4, compared to 53.8 in April). The output and new orders components fell more markedly than the headline index, while the employment index also showed a sizeable dip.*

*"An important change vis-à-vis April is the slowdown in the growth of prices, both input and output - although, for the input component, the rate of inflation remained strong. The May reading of the manufacturing PMI gives a clearer picture of how the industry is progressing as we advance through Q2. Given the current strength of inflation and indications that the output gap is already into positive territory, both this moderation of growth and the first indications of a deceleration in inflation are very welcome."*

## Key points

- PMI slipped further from January's record peak.
- New export orders declined for second month running.
- Both input and output prices rose at weaker rates.

## Historical Overview

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## Notes to Editors:

The HSBC India Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Indian 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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