

## HSBC Brazil Manufacturing PMI

Output and new order growth accelerated in June, but remained relatively subdued

### Summary

Operating conditions across Brazil's manufacturing economy improved at a marginally faster rate at the end of the second quarter. The headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – climbed slightly from May's eight-month low of 52.4 to 52.7 in June. However, the PMI continued to signal a relatively subdued pace of expansion, remaining below its average over the past year.

After slowing to nine-month lows in May, both output and new business growth picked up slightly in June. Although the expansions in both variables were solid, they remained muted in comparison to the marked increases recorded during the first quarter of the year. Data indicated that the home market remained the primary driver of total new order growth, as incoming new work from abroad was unchanged overall. Panellists linked higher sales levels to a combination of improved economic conditions and promotional efforts.

Although manufacturing activity was raised again in June, it was not sufficient to clear backlogs of work or build finished goods stocks. Outstanding business accumulated at a modest pace as a result. Meanwhile, post-production holdings fell for the first time in three months, albeit only fractionally.

To expand capacity and accommodate higher workloads, Brazilian manufacturers hired additional personnel and raised buying activity during the latest survey period. Employment expanded at a moderate pace that was little-changed from the eight-month low recorded in May, while purchasing increased at a solid and slightly accelerated rate. However, the faster rise in input acquisitions was not enough to replenish pre-production holdings, which fell marginally on the month.

Reflecting greater demand for inputs, lead times on deliveries of raw materials and semi-finished goods to Brazilian manufacturers lengthened during June. However, the latest deterioration in supplier performance was less marked than in May.

Overall inflationary pressures across Brazil's manufacturing industry were broadly unchanged in June. Both input and output price increases were only fractionally weaker than those registered in May. Data signalled another considerable increase in purchasing costs, which panel members attributed to higher fuel and raw material prices. Meanwhile, charges continued to rise modestly as manufacturers sought to compensate for growing cost burdens.

### Comment

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

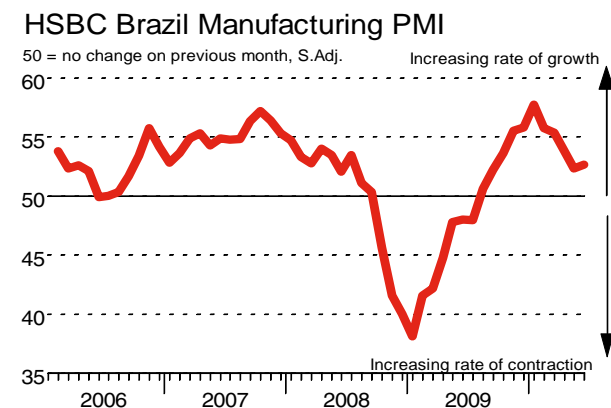
*"After signalling decelerating growth in the previous four months, HSBC's Manufacturing PMI index suggests that the rate of expansion of Brazil's industrial sector may be stabilizing. The headline index rebounded slightly in June, to 52.7, from May's 52.4. The slight increase in the PMI reflects rises in both the output and new business indices from their nine-month lows in May. The latter, which was principally driven by greater domestic new orders, suggests that domestic sales remain a key support to Brazil's manufacturing sector."*

*"There was some good news on the inflation front. For the second month in a row, both the input and the output price indices fell, pointing to weakening cost pressures. However, the country is still not out of the woods in terms of inflationary risks, as the input prices index remains at an uncomfortably high level. Moreover, the stocks of finished goods index fell below 50.0 (and to its lowest level since last November), which is another source of inflationary risk, as the overall picture remains one of robust domestic demand."*

### Key points

- PMI up from May's eight-month low, but only slightly.
- New export business unchanged after two months of contraction.
- Job creation remained modest.

### 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 around 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.

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](mailto:economics@markit.com).

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