

HSBC Brazil Manufacturing PMI™

PMI slipped to lowest level for almost a year in July as output and new order growth slowed

Summary

The expansion of Brazil's manufacturing economy continued to slow at the start of 2010's third quarter, with production, new business, employment and buying activity all rising at weaker rates. Consequently, the headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – dropped from 52.7 in June to an eleven-month low of 51.8 in July. The latest reading pointed to only a moderate improvement in operating conditions.

Manufacturers recorded modest gains in new business in July. Incoming new work to the sector has now risen continuously for a year. Panellists attributed the latest expansion to improved economic conditions and solid demand levels. However, the increase slowed to the weakest rate of the current sequence, partly reflecting a slight decline in new export orders. Output growth moderated in line with the trend in total new business.

To accommodate greater production requirements, Brazilian manufacturers added to payrolls in July. Employment rose for the eleventh straight month as a result. However, the latest round of job creation was only modest and the least pronounced since September 2009.

Greater demand for Brazilian manufactures positively influenced firms' input purchasing decisions in July. Buying activity rose moderately, although at a weaker rate than over the previous ten months. Respondents stated that additional inputs were required both to meet current production requirements and to build stocks of raw materials and semi-finished goods, which accumulated slightly.

Vendor performance deteriorated in July as a result of greater demand for inputs. Panellists also commented on insufficient capacity at suppliers and shortages of certain commodities. However, lead times lengthened at the weakest rate since January.

Despite another rise in new orders, outstanding business at Brazilian manufacturing units fell in July, albeit only fractionally. Where firms reported a reduction in backlogs, they mainly linked this to the availability of spare capacity. Meanwhile, greater volumes of unfinished work were largely attributed to stronger market demand.

Price pressures across Brazil's manufacturing economy continued to ease in July. Both input and output prices rose at weaker rates, although this was still marked in the case of purchasing costs. Higher raw material prices provided the main upward pressure on input costs and charges, according to survey participants.

Comment

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

"The expansion of Brazil's manufacturing economy in July resumed the deceleratory trend observed since the beginning of the year, and which was only briefly reversed in June. At 51.8 (down from 52.7 in June) HSBC Manufacturing PMI now stands at its lowest level since August 2009. This more moderate expansion was a result of a across the board moderation. Among the indices that compose the manufacturing PMI, the output and the new orders components showed the strongest slowdowns in growth. The increase in employment also slowed, but less sharply.

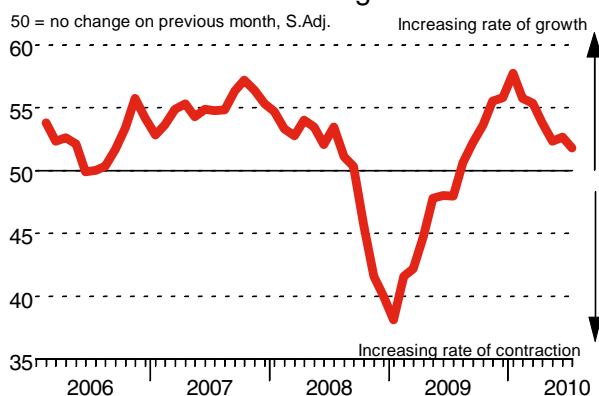
"On the inflation front there is good news, as the output prices index, as well as on the input prices index, fell on the month, signalling an easing of price pressures. Last but not least, manufacturers resumed their accumulation of stocks of finished goods, after allowing them to fall slightly in June. This should prevent a more marked build up of inflationary pressures in case demand suddenly picks up."

Key points

- Production and new business rose only moderately.
- Employment growth eased to modest pace.
- Input price inflation continued to slow, but remained marked.

Historical Overview

HSBC Brazil Manufacturing PMI



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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.

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