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HSBC Brazil Manufacturing PMI™

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

Key findings:

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

The rate of 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 across the industry.

Brazilian manufacturers recorded modest gains in total 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 favourable 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

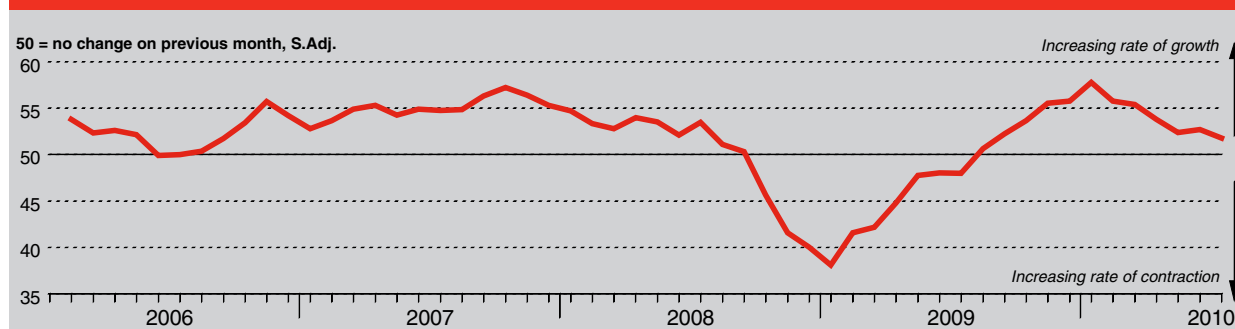
firms' input purchasing decisions in July. Buying activity rose moderately, although at a weaker rate than over the previous ten months. Respondents stated that additional inputs were required both to meet current production requirements and to build stocks of raw materials and semi-finished goods, which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

Vendor performance deteriorated during the latest survey period 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 at the start of Q3. 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. Special mention was made of greater prices for steel, cotton, paper and packaging.

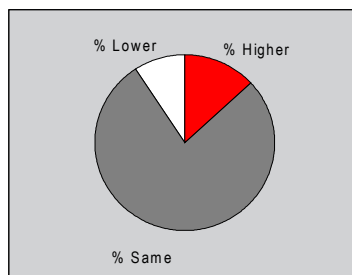
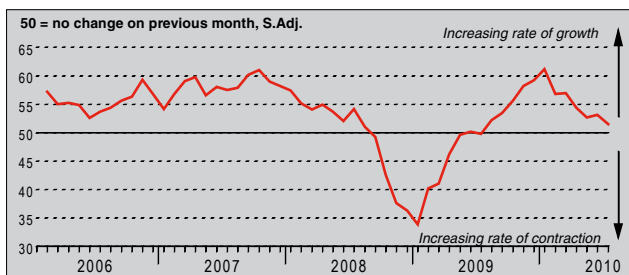
HSBC Brazil Purchasing Managers' Index (PMI)



The HSBC Brazil Purchasing Managers' Index (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

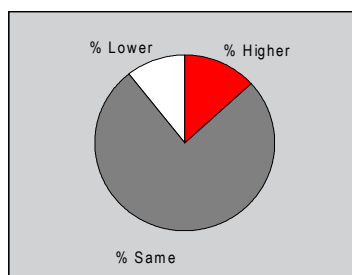
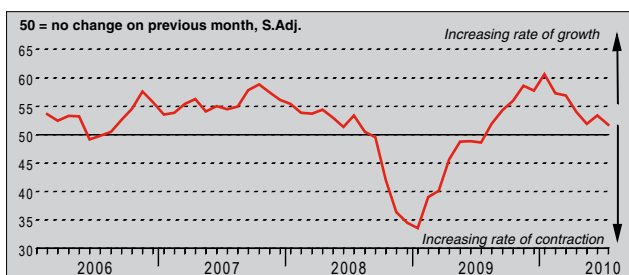
Q. Please compare your production/output this month with the situation one month ago.



July marked one year of continuous output growth across Brazil's manufacturing economy. However, the latest expansion was only moderate and the weakest of the current sequence. Reports from survey members indicated that the slower increase in production mainly reflected a similar easing in the rate of new order growth.

New Orders Index

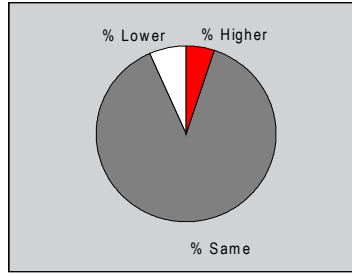
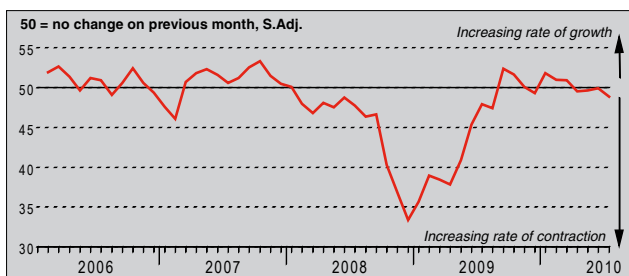
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Receipts of new business at Brazilian manufacturers continued to rise during the first month of Q3. Respondents attributed July's increase to improving economic conditions and solid market demand. However, the rate of expansion slowed to a moderate pace that was the least pronounced of the current year-long period of growth.

New Export Orders Index

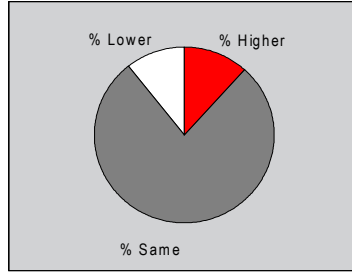
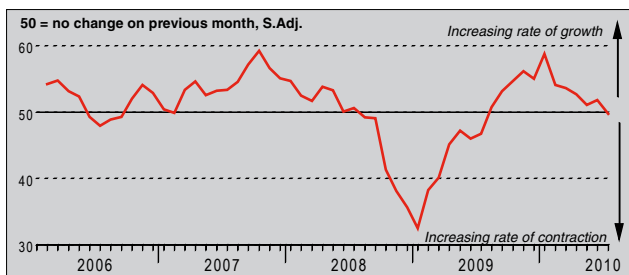
Q. Please compare the level of new export orders received this month with the situation of one month ago.



For the third time in the past four months, Brazilian manufacturers recorded a fall in incoming new business from abroad during July. The seasonally adjusted New Export Orders Index fell to its lowest level since August 2009, signalling a modest rate of contraction. Anecdotal evidence suggested that external sales levels decreased due to difficult business conditions and lacklustre foreign demand.

Backlogs of Work Index

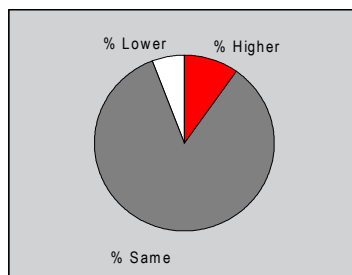
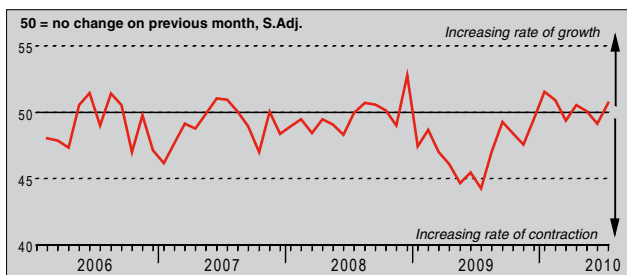
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Ending an eleven-month long run of backlog accumulation, volumes of outstanding business at Brazilian manufacturers fell during July. However, the rate of decline was only meagre. Where work-in-hand was cleared, this was frequently linked to the availability of spare capacity. Meanwhile, increased unfinished business was largely attributed to greater market demand and higher new order levels.

Stocks of Finished Goods Index

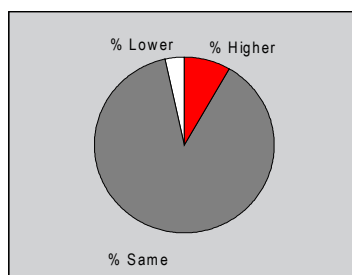
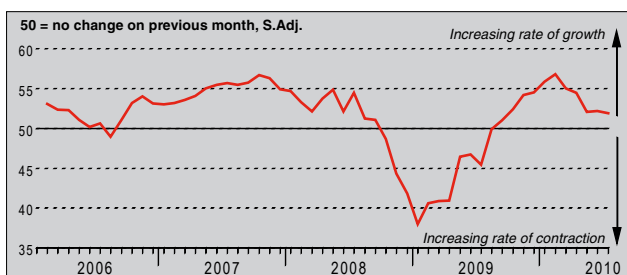
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index returned above the 50.0 no-change mark in July, with the latest reading pointing to a marginal rise in post-production holdings at Brazilian manufacturing plants. The index has not moved more than one point from the neutral threshold for six months, suggesting a broadly flat trend in inventory levels over this period.

Employment Index

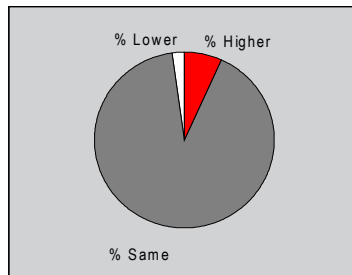
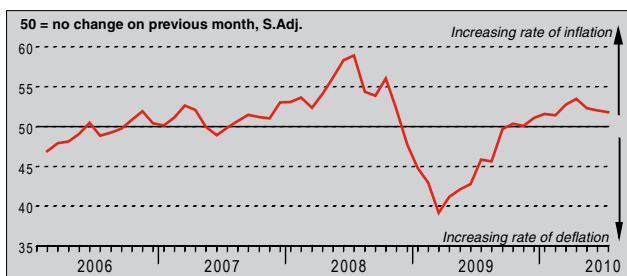
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth at Brazilian manufacturers slowed to a moderate pace during July. The latest increase was the mildest for ten months, reflecting a weaker rise in new business and efforts by some firms to manage costs. Where new workers were hired, panellists mostly commented on favourable economic conditions and expectations of further gains in new orders in the near future.

Output Prices Index

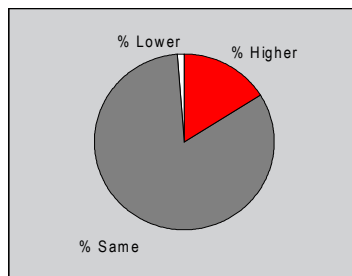
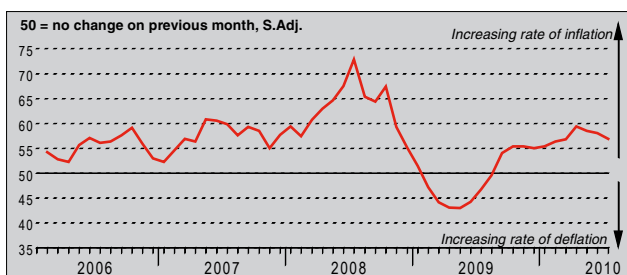
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Brazilian manufacturers raised their charges in July for the tenth month in succession, albeit to a lesser extent than over the previous four survey periods. Output price inflation was moderate, with greater input costs cited as the main influence on manufacturers' tariffs. However, the vast majority of panellists (91%) maintained their rates since June.

Input Prices Index

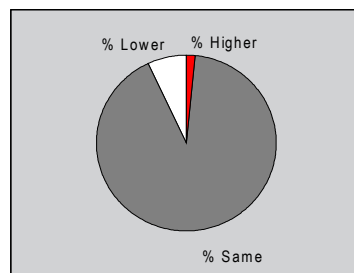
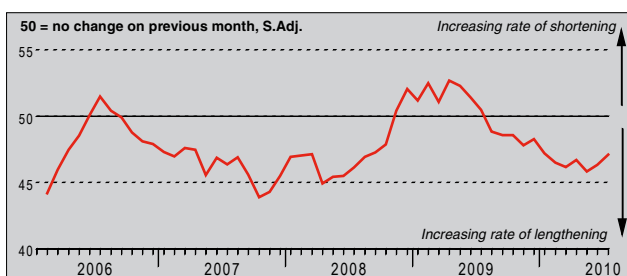
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation in the Brazilian manufacturing industry was marked during the latest survey period, despite slowing further from April's one-and-a-half year peak. Exactly 16% of the survey panel saw an increase in their purchasing costs since June, compared with around 1% that noted a decline. Respondents stated that greater raw material prices drove inflation, particularly those for steel, cotton, paper and packaging.

Suppliers' Delivery Times Index

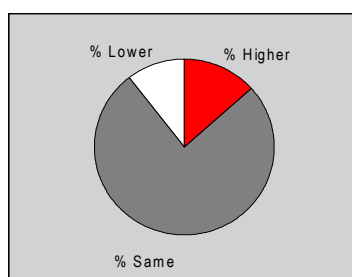
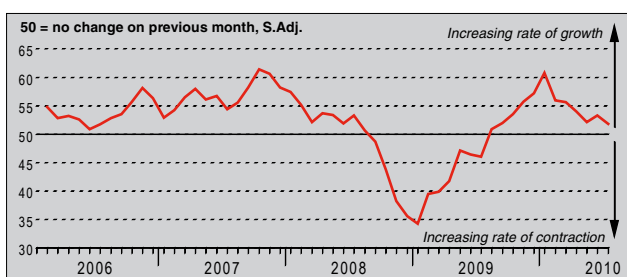
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Delivery times of raw materials and semi-finished goods to Brazilian manufacturers continued to lengthen in July. Survey members indicated that a combination of higher demand for inputs, insufficient capacity at vendors and shortages of certain commodities all underpinned the deterioration. However, the latest increase in lead times was the weakest since January.

Quantity of Purchases Index

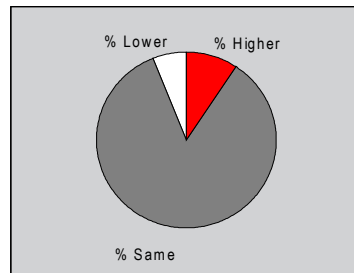
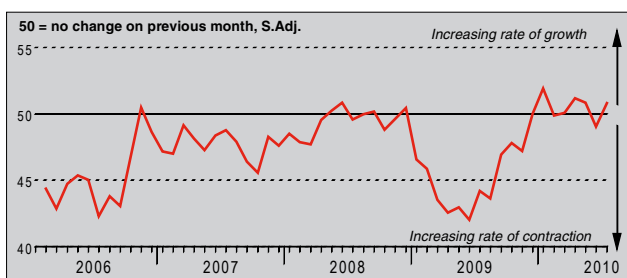
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Brazilian manufacturers continued to raise their buying activity during July, although the rate of growth was only moderate and the weakest since August 2009. Panel members indicated that additional inputs were acquired in order to accommodate greater production requirements and build up pre-production holdings.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



After falling slightly during June, input stock levels at Brazilian manufacturers rose marginally at the start of the third quarter. The latest increase was the fourth in the past five months and reflected further growth in buying activity. Over 9% of monitored companies recorded higher input holdings in July, against around 6% that saw a depletion.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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.

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