HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC Brazil Manufacturing PMI™

PMI signalled first deterioration in business conditions for over a year in August.

Key findings:
- Output and new orders fell modestly.
- Contraction in new export business accelerated.
- Price pressures continued to ease.

The broad downward trend in Brazilian manufacturing sector growth that began at the start of 2010 finally turned to outright contraction in August. Output and new order levels across the sector both fell for the first time in thirteen months, driven largely by an accelerated decline in foreign demand as troubles in Europe hit some of Brazil's key export markets. Although manufacturers continued adding to payrolls, the increase was only marginal. Meanwhile, price pressures cooled further.

Highlighting the deterioration in operating conditions across Brazil's manufacturing economy, the headline seasonally adjusted Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing sector – dipped below the no-change mark of 50.0 for the first time since July 2009. At 49.5, down from 51.8 in July, the latest reading pointed to a slight weakening in the health of the industry.

Brazilian manufacturers recorded a modest decrease in new order receipts during the latest survey period. The decline partly reflected a marked and accelerated reduction in new export business. Panel members linked lower volumes of new work to weaker demand resulting from both uncertainties surrounding the forthcoming October elections and economic difficulties in Europe.

Falling new order levels led Brazilian manufacturers to cut production for the first time since July last year. Output fell modestly as a result, despite a solid and accelerated depletion of outstanding work.

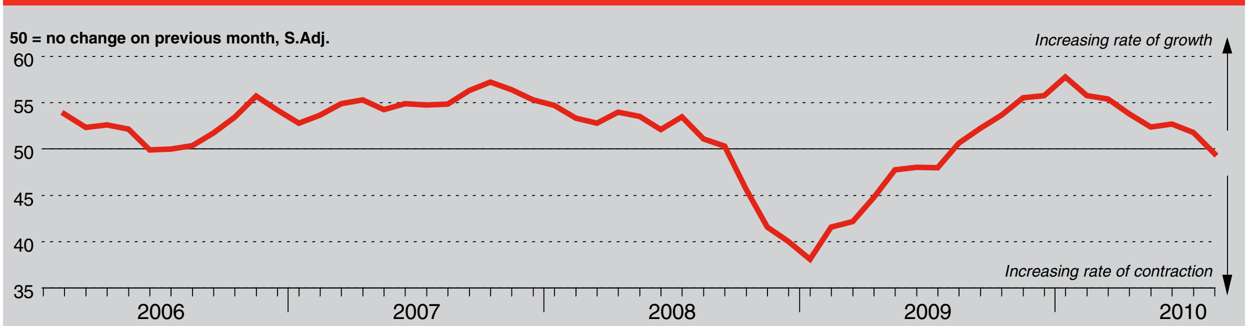
Reflecting lower production requirements, buying activity at Brazilian manufacturers fell during August. The decrease was solid and the first for over a year. Consequently, holdings of raw materials and semi-finished goods also contracted, albeit only fractionally.

Despite a fall in demand for inputs, supplier delivery times lengthened again during the latest survey period. Vendor performance has now worsened in each of the past thirteen months. However, the deterioration recorded in August was the least pronounced since December last year. Anecdotal evidence suggested that shortages of certain raw materials contributed to longer lead times.

As business conditions deteriorated during August, employment growth at Brazilian manufacturers weakened to the slowest rate of the current one-year sequence of expansion. With just 7% of companies taking on extra staff, against 6% trimming personnel numbers, overall job creation in the industry was marginal.

Input prices rose solidly during August, which respondents linked to higher raw material costs. However, the rate of increase was the slowest of the current twelve-month period of inflation. Factory gate prices were raised at a weaker rate as a result.

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.

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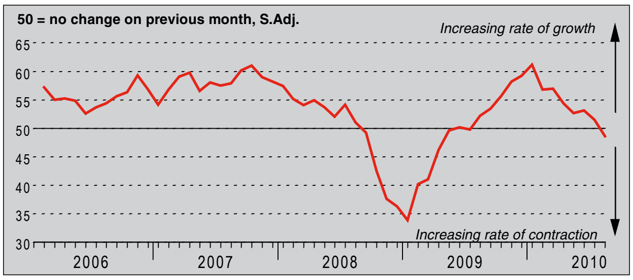
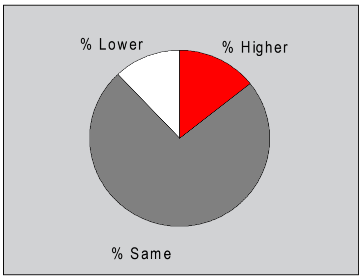
Output Index

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

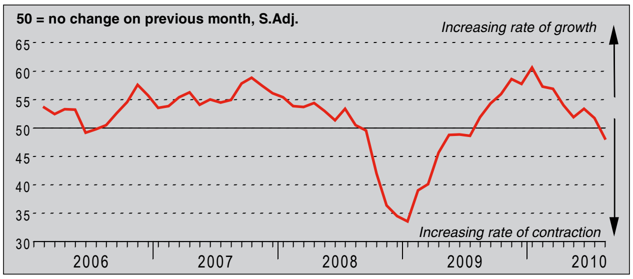


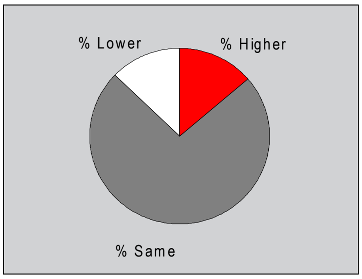


After a year-long sequence of growth, production levels at Brazilian manufacturers dipped during August. Although only modest, the decrease in output was the most pronounced for sixteen months. Survey participants indicated that manufacturing activity was reduced in line with downward trends in both market demand and new business.

New Orders Index

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

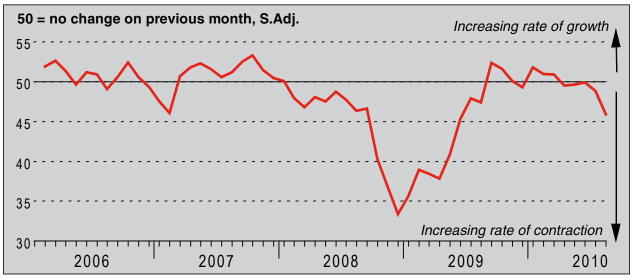


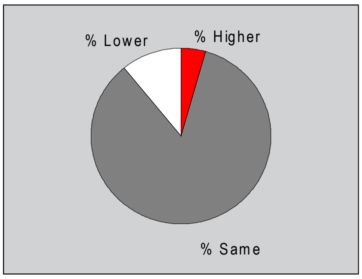


After accounting for seasonal variation, the New Orders Index registered below the no-change mark of 50.0 in August for the first time since July 2009. The latest reading signalled a modest decline in new business receipts at Brazilian manufacturers, which panel members attributed to a fall in demand. Some firms indicated that sales levels were negatively impacted by uncertainties associated with the upcoming election.

New Export Orders Index

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

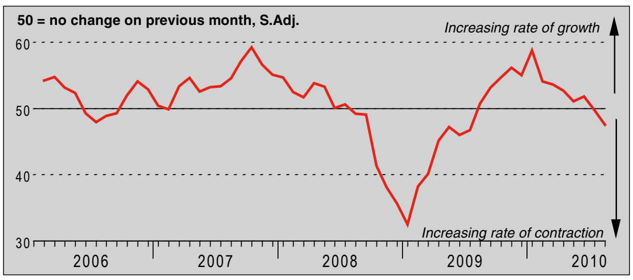


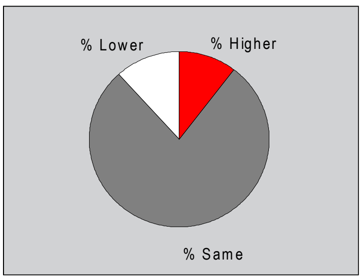


Foreign demand for Brazilian manufacturers continued to weaken during August, as shown by another decline in new export orders. Incoming new business from abroad contracted at an accelerated rate that was the fastest for fourteen months. Reports suggested that uncertainty caused by forthcoming elections and ongoing economic difficulties in Europe were the key factors underlying poor external demand.

Backlogs of Work Index

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

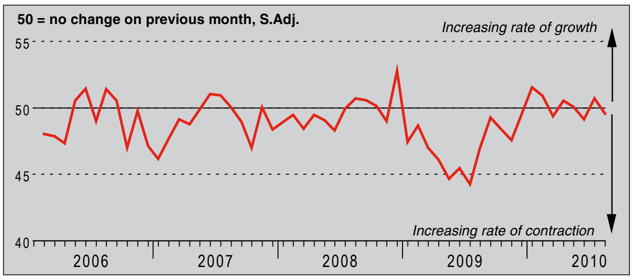


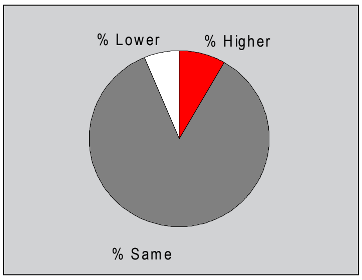


Backlogs of work at Brazilian manufacturers were depleted at a solid and accelerated pace during the latest survey period. However, the reduction was not sufficient to support production levels. Outstanding business in the sector has now decreased for two months in succession, following an eleven-month run of growth. Lighter workloads was the main reason for the contraction, according to panellists.

Stocks of Finished Goods Index

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

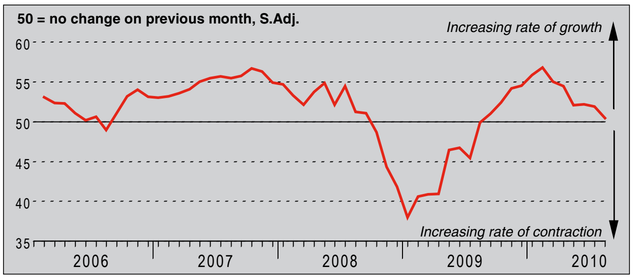


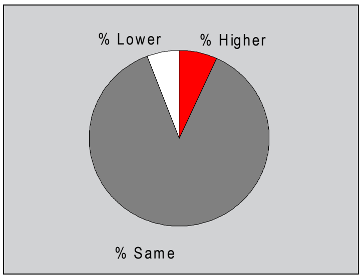


For the second time in the past three months, post-production holdings at Brazilian manufacturers fell in August. However, the decrease was only fractional. Higher inventory levels were commonly linked by panellists to lower sales, while those respondents that signalled reduced holdings mostly commented on cuts in production.

Employment Index

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

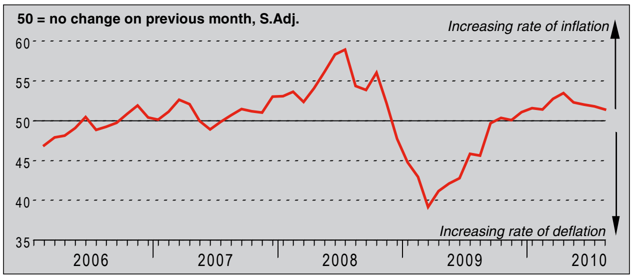


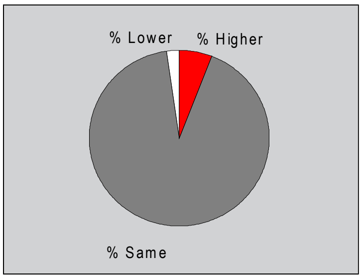


Employment growth at Brazilian manufacturers continued to slow in August. Job creation was only slight and the slowest of the current one-year sequence of expansion. Moreover, the latest increase was milder than the series' long-run average. Just 7% of survey members added to payrolls since the previous month, as opposed to 6% that trimmed staffing numbers.

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.

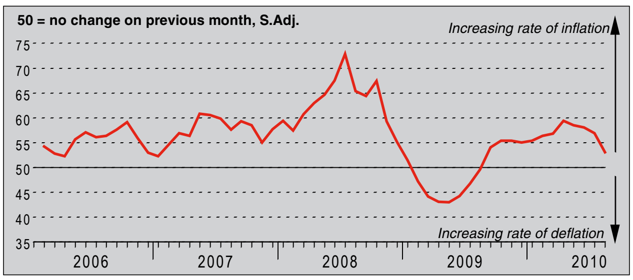


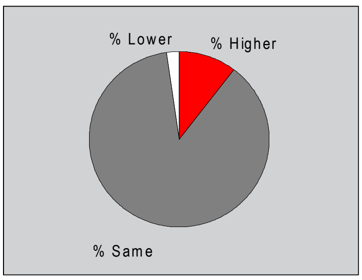


To cover further increases in their input costs, Brazilian manufacturers raised their charges in August. Output price inflation was moderate but milder than over the previous seven survey periods, with just 6% of the survey panel reporting a rise. Manufacturers have now recorded higher factory gate prices for eleven consecutive months.

Input Prices Index

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

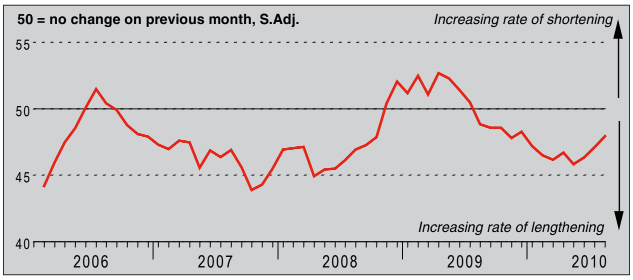


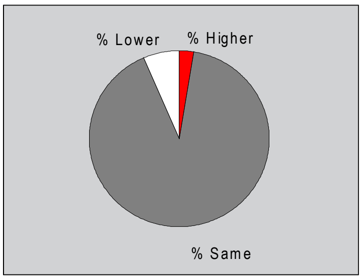


Input price inflation across the Brazilian manufacturing economy moderated during August for the fourth straight month. Although the latest increase in costs was solid, it was nevertheless the weakest of the current one-year period of inflation. Only one-tenth of monitored companies noted a rise in their input costs, down from 16% in July. Where higher prices were recorded, panellists cited greater raw material costs.

Suppliers' Delivery Times Index

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

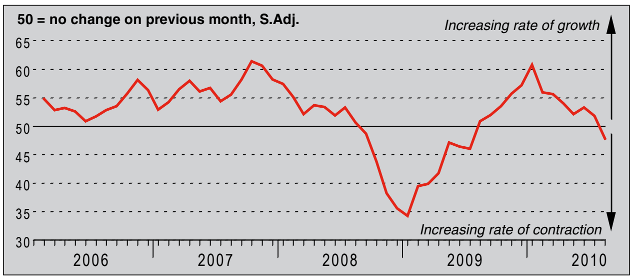


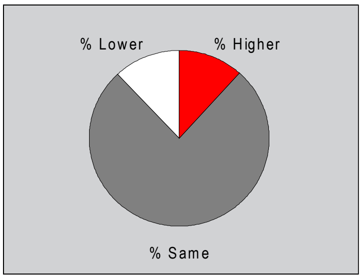


Latest data signalled another deterioration in average vendor performance during August. Lead times lengthened for the thirteenth month in succession, but at the mildest rate since December last year. Brazilian manufacturers indicated that raw material shortages contributed to longer delivery times.

Quantity of Purchases Index

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

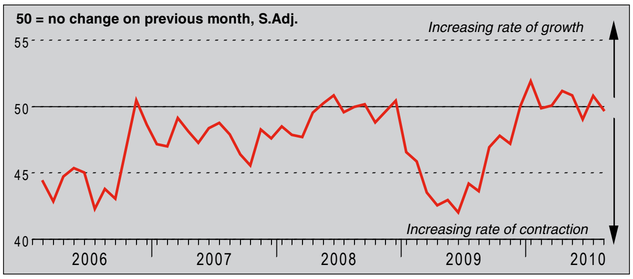


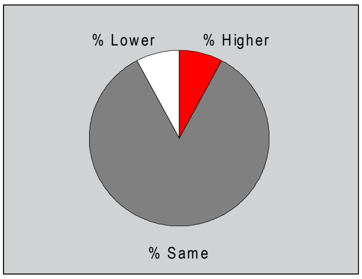


Brazilian manufacturers reduced their acquisitions of raw materials and semi-finished goods in August. Although only modest, the decline was the first for over a year. Panel members stated that buying activity was cut in line with production levels as market demand waned. Some survey participants also mentioned cost pressures and the associated need to manage expenses.

Stocks of Purchases Index

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





Reflecting a fall in buying activity, pre-production holdings at Brazilian manufacturing units contracted during the latest survey period. That said, the reduction was only fractional and noticeably slower than the long-run series average. This was highlighted by the Stocks of Purchases Index, which posted just below the neutral mark of 50.0 in August.

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.

Warning