

## HSBC Brazil Manufacturing PMI™

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

### Summary

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 in August. The decline partly reflected a marked and accelerated reduction in new export business. Firms 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. However, the deterioration 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.

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.

### Comment

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

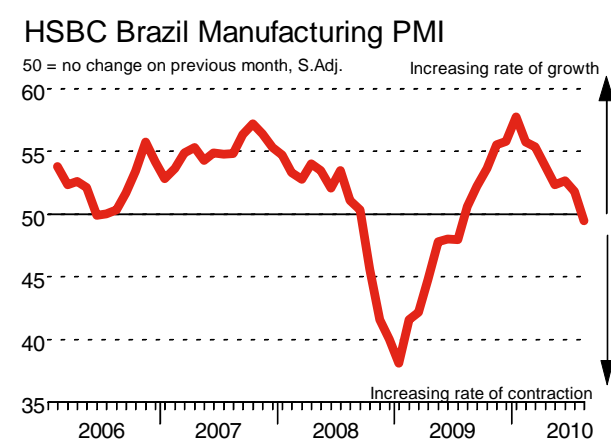
*"According to the HSBC Manufacturing PMI, Brazil's industrial sector showed a slight contraction (49.5, from 51.8 in July), for the first time since July 2009. It was already a well established fact that economic activity had been slowing since the beginning of the second quarter, but a reading below 50 comes as a surprise. Moreover, the movement appears to be quite broad, as all components except for employment and prices have fallen below the 50 waterline. This reinforces perceptions that at least for now, the Central Bank is done tightening. On the positive side, the manufacturing sector also appears to be on its way in obtaining leaner inventory levels.*

*"The price components of the PMI remain above 50. However, both input and output price inflation decelerated – the former markedly, continuing the benign inflation dynamics observed over the last few months."*

### Key points

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

### 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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