HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC Brazil Manufacturing PMI™

PMI rose back above 50.0 in September, signalling return to growth.

Key findings:

- Production levels grew slightly.
- New orders broadly unchanged.
- Jobs created at faster pace.

Latest data from the HSBC Brazil Manufacturing PMI Report signalled an improvement in business conditions across the sector at the end of Q3, after a slight deterioration in August. Reports suggested that a firmer trend in domestic demand offset a fall in external new sales and spurred companies to raise output, rebuild finished goods stocks and take on additional staff. Consequently, the headline seasonally adjusted HSBC Brazil Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing sector – climbed back above the 50.0 no-change threshold to 50.4 in September to signal a marginal gain in the health of the sector. However, the rate of improvement signalled by the latest PMI reading remained well below the series average.

The overall volume of incoming new work to the Brazilian manufacturing industry was largely unchanged in September, following a modest fall in August. Data and anecdotal evidence from the survey panel suggested that a sharp contraction in new export sales was offset by an improved trend in domestic demand. However, uncertainty caused by the upcoming election and strong foreign competition, especially from China, were cited as factors weighing on demand levels.

After a slight contraction during the previous month, Brazilian manufacturing production expanded in September. Panel members stated that output was raised both to cater for new sale wins and to build up finished goods stocks in anticipation of future demand growth. However, the rate of increase was only marginal.

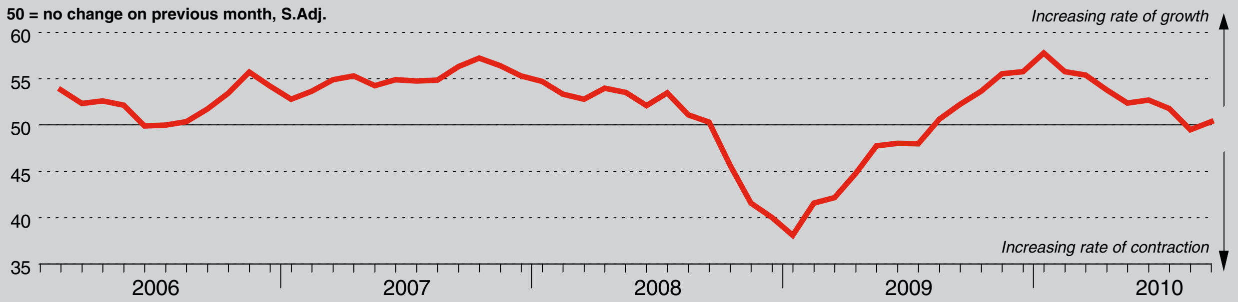
Post-production holdings accumulated on the back of output growth, albeit only slightly. In contrast, pre-production inventories continued to fall due to stock shedding and supplier delivery delays.

Although buying activity was largely unchanged in September, vendor performance continued to deteriorate. That said, lead times on deliveries of raw materials and semi-finished goods to Brazilian manufacturers lengthened only slightly.

Brazilian manufacturers hired staff at an accelerated rate in September. However, job creation was modest and slightly below the series trend.

Both input and output price inflation slowed during the latest survey period. For input costs, the latest rise was the weakest of the current thirteen-month sequence of increase. Meanwhile, the modest rise in charges was the mildest since December 2009. Panellists linked inflation of both input and output prices to higher raw material costs (particularly for paper, sugar and cotton) and unfavourable exchange rates.

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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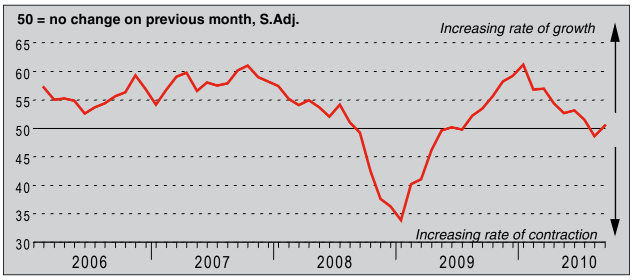
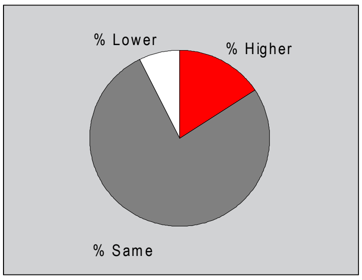
Output Index

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

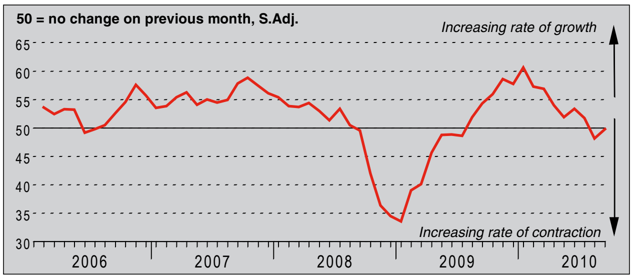


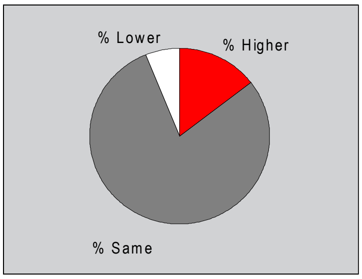


After a slight dip below the neutral mark of 50.0 in August, the seasonally adjusted Output Index moved back into expansionary territory in September. The index has now signalled rising production levels at Brazilian manufacturers in thirteen of the past fourteen months. That said, the latest increase was only slight. A number of reports showed that activity was raised in response to build stocks of finished goods.

New Orders Index

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

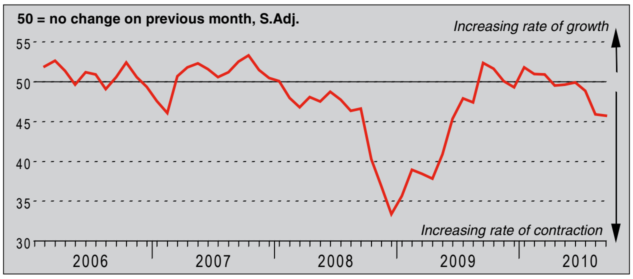


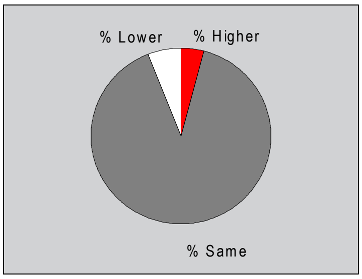


Total new order levels across the Brazilian manufacturing industry were largely unchanged at the end of Q3, after a slight contraction in August. Companies that recorded a rise in total new business primarily linked this to improved economic conditions in Brazil. In contrast, those that saw new work decrease mostly commented on uncertainties surrounding the upcoming election and weak exports.

New Export Orders Index

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

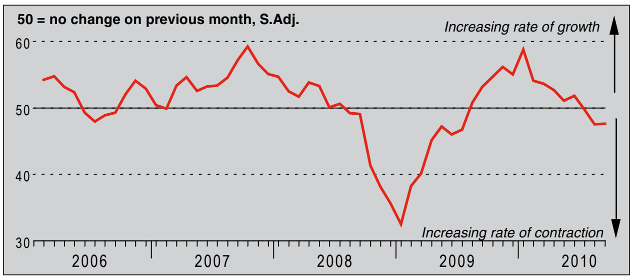


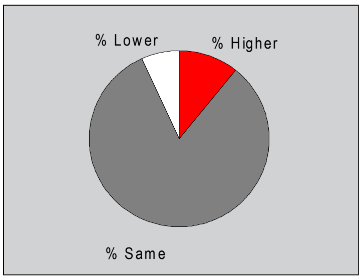


For the fifth time in the past six months, foreign demand for Brazilian manufactures receded in September. Consequently, incoming new work from abroad fell at a solid rate that was the sharpest since June 2009. Strong competition from abroad (particularly China) and unfavourable exchange rates were key reasons for lower external sales, according to panellists.

Backlogs of Work Index

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

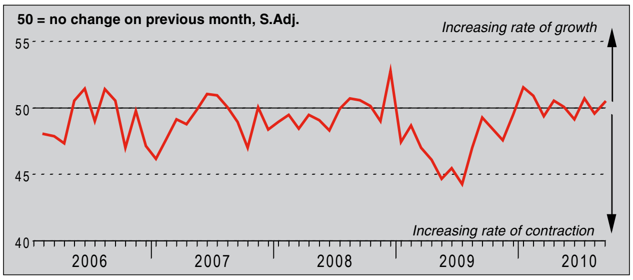


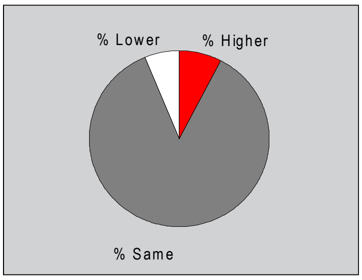


Unmoved from August, the seasonally adjusted Backlogs of Work Index signalled another moderate reduction in outstanding business at Brazilian manufacturers in September. The latest reading suggests that there remained a degree of spare capacity at manufacturing units. Work-in-hand in the sector has now fallen for three months in succession.

Stocks of Finished Goods Index

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

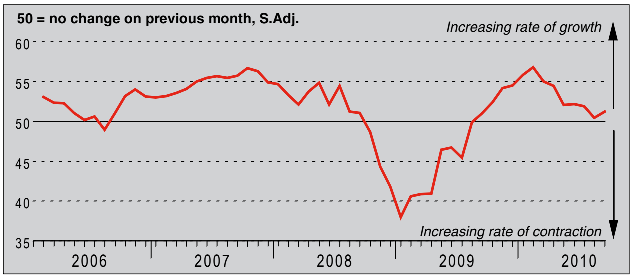


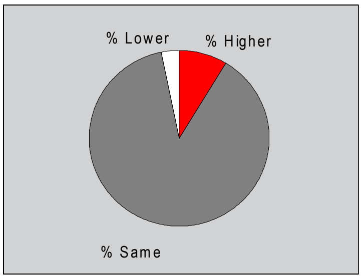


After a fractional decrease in August, holdings of finished goods at Brazilian manufacturers rose slightly in September. Around 8% of companies recorded larger inventories, compared with 6% that noted a fall. Respondents indicated that stocks were built up in expectation of a strengthening in market demand.

Employment Index

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

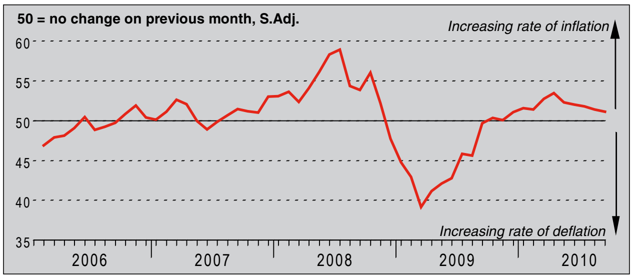


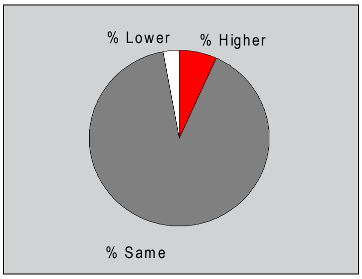


Job creation picked up to a modest pace at the end of Q3, following a noticeable slowdown in growth during August. However, the rate of increase remained weaker than the twelve-month average for the series. Anecdotal evidence suggested that workforces were expanded in order to cater for increased production requirements.

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.

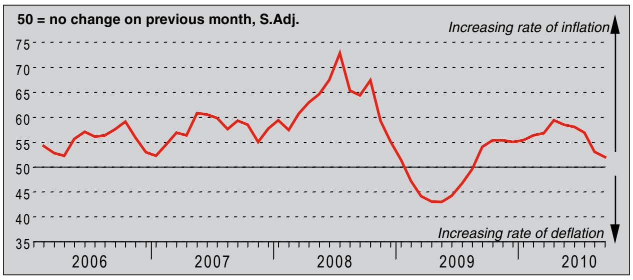


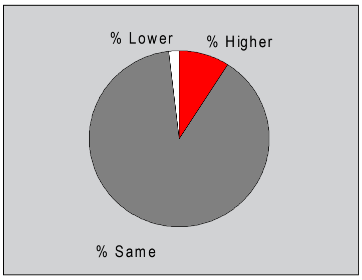


Output price inflation recorded by Brazilian manufacturers remained moderate during September, despite slowing slightly. Charges have now increased continuously for a year. The principal reason for increased tariffs, according to panel members, was the need to protect profit margins from rising input costs.

Input Prices Index

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

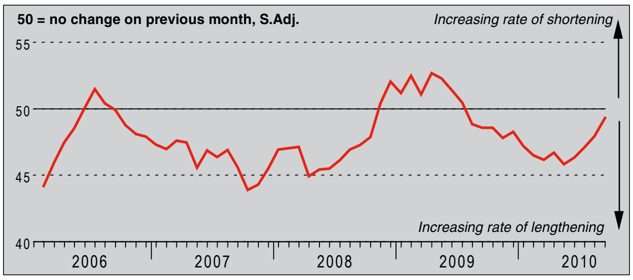


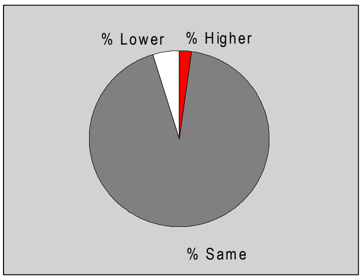


Input costs in the Brazilian manufacturing economy continued to climb during September, bringing the current run of inflation to thirteen months. However, the latest increase was only moderate and the slowest of the current sequence. In the 9% of cases where higher prices were recorded, survey members cited unfavourable exchange rates and more expensive raw materials (particularly paper, sugar and cotton).

Suppliers' Delivery Times Index

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

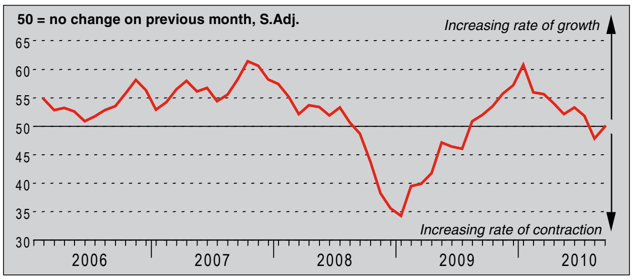


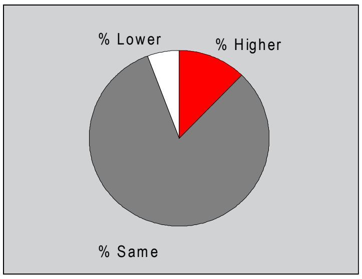


Lead times on deliveries of raw materials and semi-finished goods to Brazilian manufacturers continued to lengthen at the end of Q3. However, the rate of deterioration slowed to a slight pace that was the mildest of the current fourteen-month sequence. Firms indicated that raw material shortages were the primary reason for worse supplier performance.

Quantity of Purchases Index

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

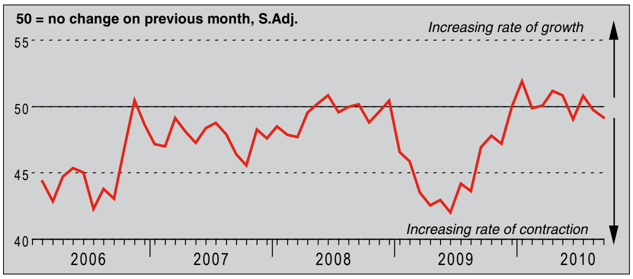


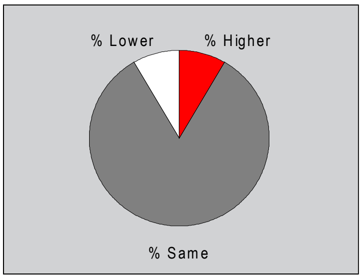


The seasonally adjusted Quantity of Purchases Index registered close to the no-change mark of 50.0 in September, indicating that Brazilian manufacturers largely maintained the level of their buying activity on the month. Where input acquisitions increased, most companies commented on a firmer demand trend. Meanwhile, cuts in purchasing were commonly linked to high raw material prices and destocking.

Stocks of Purchases Index

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





Holdings of pre-production goods at Brazilian manufacturers continued to be depleted in September, and at a slightly accelerated pace. Even so, the rate of reduction was only mild. Respondents that reported lower input inventories cited stock shedding and supplier delivery delays as the key factors behind the decline.

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