

HSBC Brazil Manufacturing PMI™

PMI back below 50.0 in October, signalling slight deterioration in business conditions

Summary

October manufacturing data for Brazil showed a deterioration in business conditions within the sector, following a slight improvement during September. Output and new business fell, while a thirteen-month period of employment growth came to an end. Despite weaker market demand, firms continued to raise their charges in order to pass on higher input costs to customers – a factor which some firms linked to lower sales levels.

Sinking to 49.5, from 50.4 in September, the headline seasonally adjusted HSBC Brazil Manufacturing PMI™ signalled a slight decline in the health of Brazil's manufacturing economy. Data have pointed to worsening operating conditions in two of the past three months.

For the third month running, Brazilian manufacturers reported a reduction in new order receipts during October. Although the rate of contraction accelerated, it remained modest. Companies stated that lower demand, strong competition and uncertainty surrounding recent elections all underlay the dip in new business. Some respondents also mentioned that their charges were too high to be competitive. New export orders declined at a faster rate than total new work during the latest survey period.

Backlogs of work across the Brazilian manufacturing industry continued to be depleted in October, and at the fastest rate since June last year. Panel members linked lower levels of unfinished business to another decline in new orders. Work-in-hand has fallen for four straight months.

Brazilian manufacturers halted their intake of new staff in October as workloads decreased further. Consequently, a thirteen-month period of job creation ended as the vast majority of monitored companies maintained personnel levels since September.

Input acquisitions at Brazilian manufacturers were cut more sharply in October, which panellists linked to a combination of fewer new orders and stock depletion policies. Pre-production inventories fell further as a result, although the rate of decline remained only slight.

Average vendor performance continued to deteriorate at the start of Q4, despite weaker demand for inputs. Firms cited low capacity at suppliers as the main reason for longer lead times.

Both input and output price inflation was moderate in October. Anecdotal evidence suggested that higher input costs largely reflected increased prices for raw materials, particularly cotton, metals and certain food-related items. Meanwhile, reports indicated that firms raised their charges to cover growth in their average cost burdens.

Comment

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

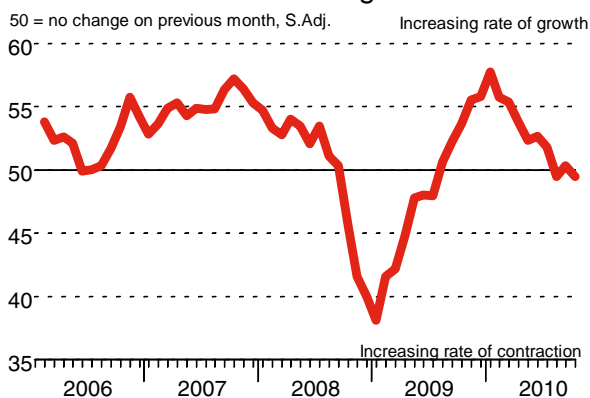
"Despite the strength of the labour market and the solid expansion of domestic credit, which have supported robust growth in domestic demand, the Brazil HSBC Manufacturing PMI fell below 50 in October, which implies in a small contraction of the manufacturing sector. The headline PMI index is now at 49.5, against 50.4 in September and 53.7 in October of last year, with many component indices falling below the 50 mark. Considering that final domestic demand remains very strong, it seems likely that the combination of weak external demand and growing competition from imports is starting to take its toll on activity in the manufacturing sector, which would explain the weakness in the latest PMI numbers."

Key points

- Output and new orders fell slightly.
- Employment unchanged since September.
- Inflationary pressures remained modest.

Historical Overview

HSBC Brazil Manufacturing PMI



For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone +55-11-3371-8184
Email andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email constantin.c.jancso@hsbc.com.br

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5785
Email aseidl@hsbc.com.br

Markit

Gemma Wallace, Economist
Telephone +44-1491-461-075
Email gemma.wallace@markit.com

Caroline Lumley, Markit Press Office
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

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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