

HSBC Brazil Manufacturing PMI™

PMI climbed above 50.0 in December for first time in three months

Summary

December data pointed to a more promising end to the year for Brazilian manufacturers, as output and employment expanded at faster rates and new orders grew for the first time in five months. However, input price inflationary pressures picked up sharply.

Reflecting improvements in its key components, the headline seasonally adjusted HSBC Brazil Manufacturing PMI™ registered above the no-change mark of 50.0 in December for the first time in three months. At 52.4, up from 49.9 in November, the PMI signalled a moderate gain in the health of Brazil's manufacturing economy. However, the latest reading remained below the series' twelve-month average.

Incoming new work to the Brazilian manufacturing industry rose at a robust rate at the end of Q4, following four straight months of contraction. Growth reflected improvements in both domestic and foreign demand, although data suggested that the former remained stronger. Panellists commented on more favourable business conditions.

An increase in new orders led Brazilian manufacturers to raise both production and employment in December. Each expanded at a solid rate that was the fastest for six and eight months respectively.

Reflecting the upward trend in new work, purchases were increased in December. The expansion in buying activity was moderate and the sharpest since June, albeit not sufficient to rebuild input stocks, which continued to fall.

Brazilian manufacturers recorded another deterioration of vendor performance during the latest survey period. Lead times lengthened for the seventeenth month in succession and at a slightly accelerated pace. Anecdotal evidence suggested that delivery times increased due to higher demand for inputs.

Latest data indicated that workloads across Brazil's manufacturing sector remained manageable in December, despite a pick-up in new business. Backlogs were broadly unchanged since November, following five months of depletion.

Both input and output price inflation accelerated during December – the former noticeably and to a strong pace. Panel members blamed rising purchasing costs on higher raw material prices (especially those for cotton, plastic and food-related items). Reports indicated that greater demand for, and short supplies of, certain commodities put upward pressure on raw material prices. Meanwhile, Brazilian manufacturers solidly increased their charges in order to defend profit margins from escalating input costs. Factory gate price inflation was the sharpest for eight months as a result.

Comment

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

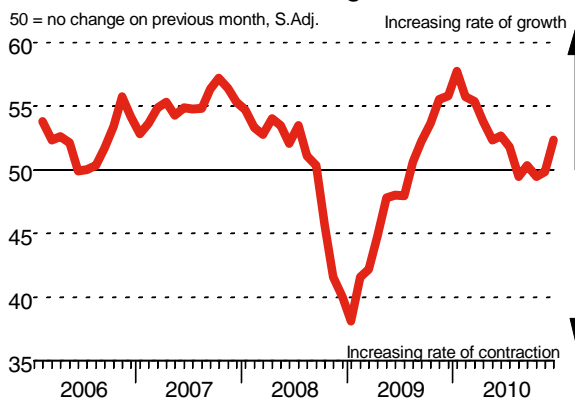
"After five months of essentially moving sideways, economic activity in Brazil's manufacturing sector appears to have jumped back to life in December. The HSBC Brazil Manufacturing PMI rose from 49.9 in November to 52.4 last month. The outlook for manufacturing in 1Q2011 seems strong, as the biggest increases were in 'New Orders', 'Quantity of Purchases' and 'Input Prices', while the index for inventories of finished goods remained below the 50 mark. The latter point was partly due to higher-than-expected sales. Industrial employment, meanwhile, continued to do well. These strong results are particularly significant because the 'soft-patch' in industrial production in 2H2010 has been an argument in favour of the Central Bank postponing the beginning of the monetary policy tightening cycle to March or later. Our view is that rates will go up as of January."

Key points

- Output and employment growth both gained pace.
- New orders rose for first time in five months.
- Input price inflation accelerated sharply.

Historical Overview

HSBC Brazil Manufacturing PMI



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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.

HSBC:

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