HSBC Purchasing Managers' Index™ 2011

compiled by markit

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HSBC Brazil Manufacturing PMI™

PMI at eleven-month high, but rate of input price inflation intensified.

Key findings:

- New order growth at fastest pace since February 2010.
- Solid rate of job creation.
- Input price inflation quickened to eight-month high.

Conditions within the Brazilian manufacturing sector improved at a stronger rate in February. This was indicated by 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 – posting 54.6, up from 53.1 recorded in January. The improvement largely reflected stronger output and new order growth. However, a marked rate of input price inflation continued to place pressure on Brazilian manufacturers.

Firms operating within the Brazilian manufacturing sector recorded a higher level of output in February compared to a month earlier. The rise in production was strong and the fastest in eleven months, as the number of new orders received by monitored companies increased during the latest survey period. Noticeably, new order growth was marked and the strongest since February 2010, with panellists attributing this to greater demand. The stronger expansion of new orders was largely driven by the domestic market, as new export sales rose only modestly in February.

Reflective of new order growth being faster than that of output, the amount of outstanding work increased during February. The accumulation was at a solid rate and the second in consecutive months. Moreover, the amount of finished goods held as stock by Brazilian manufacturing companies declined during the latest survey period. Finished goods holdings were in part depleted to fulfil higher new order requirements, although a number of survey respondents reduced their inventories as leaner stock policies were introduced.

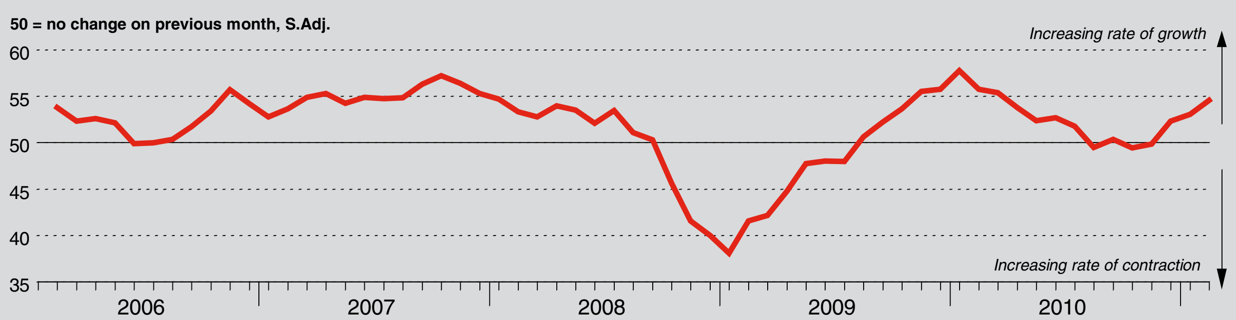
The amount of inputs purchased by surveyed firms increased at a strong rate in February. Panellists commented that this was due to greater production requirements. Meanwhile, the volume of pre-production goods held in stock by panellists fell marginally.

Similarly, higher production requirements also led firms to increase their headcounts in February. Employment growth has now been registered for the past four months, with the latest rise the fastest since April 2010.

Supply chain pressures continued to build during the latest survey period. Vendors' delivery times lengthened further in February, extending the current trend to nineteen months. Anecdotal evidence suggested that vendors struggled to cope with additional demand for inputs and had difficulty in sourcing some raw materials during the latest survey period.

The average price of inputs rose at a marked pace in February. The rate of input cost inflation was the strongest in eight months, as monitored companies recorded higher prices for a wide range of goods. In particular, steel, corn and cotton were mentioned by panellists. Consequently, firms raised their prices charged during the latest survey period. However, the rate of output price inflation remained slower than that of input costs.

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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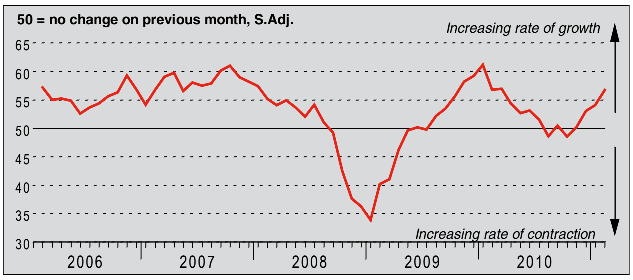
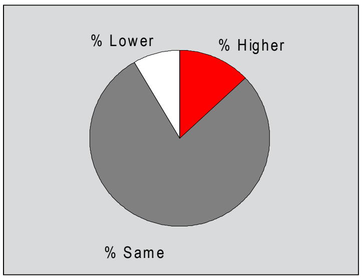
Output Index

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

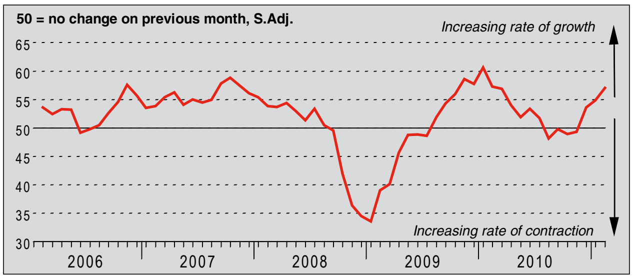


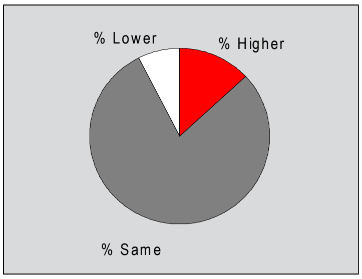


Brazilian manufacturers registered increased output in February for the fourth month running. Noticeably, production growth quickened since January to the fastest pace in eleven months and remained well above the long-run series average. Monitored companies attributed the latest rise in output to the strong increase in new orders during February.

New Orders Index

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

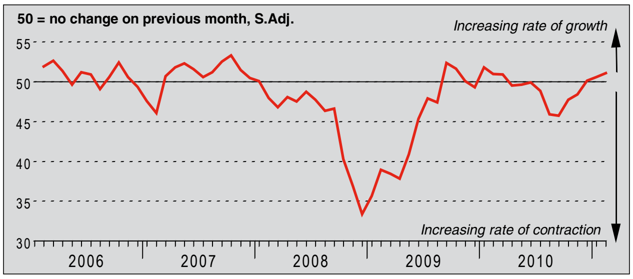


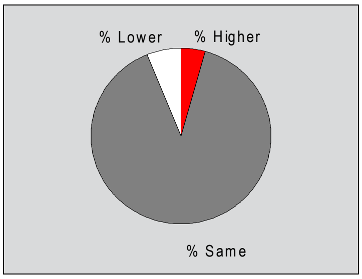


Firms within the Brazilian manufacturing sector received a larger volume of new orders in February compared to the previous survey period. The increase in new orders recorded in February was marked and the strongest in twelve months. Surveyed firms commented on greater demand for Brazilian goods during the survey period, particularly within the domestic market.

New Export Orders Index

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

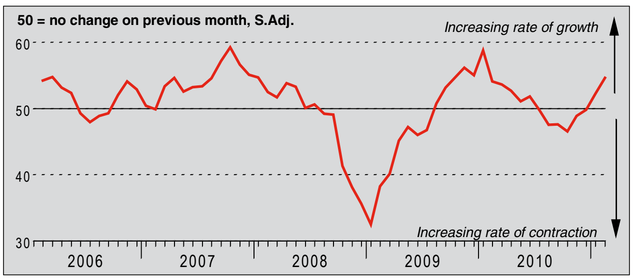


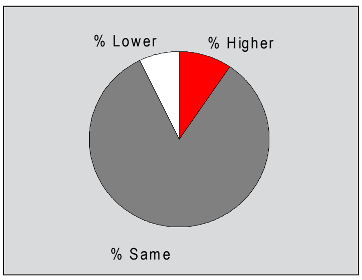


In February, the number of new export orders placed at Brazilian manufacturers increased for the third consecutive month. Although the latest rise was the fastest in thirteen months, the rate of new export order growth was only modest. Anecdotal evidence suggested that greater demand for manufactured goods in key foreign markets led to a higher number of export orders being received by panellists during the latest survey period.

Backlogs of Work Index

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

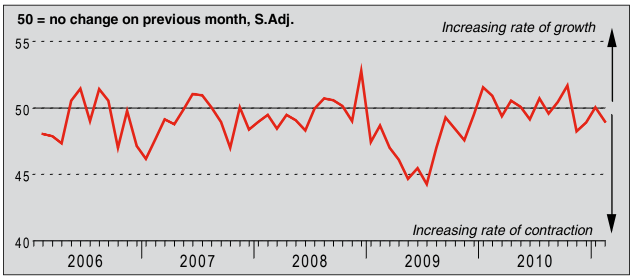


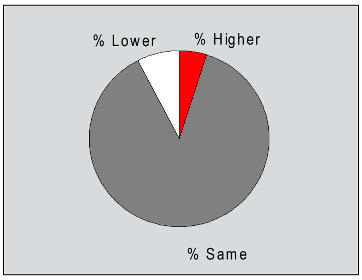


The seasonally adjusted Backlogs of Work Index posted above the 50.0 no-change threshold for the second successive month in February. The latest reading was a thirteen-month high and indicated that the rate of accumulation in backlogged work was strong. Panellists reported that the increase in outstanding work was reflective of new order growth being faster than that of output.

Stocks of Finished Goods Index

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

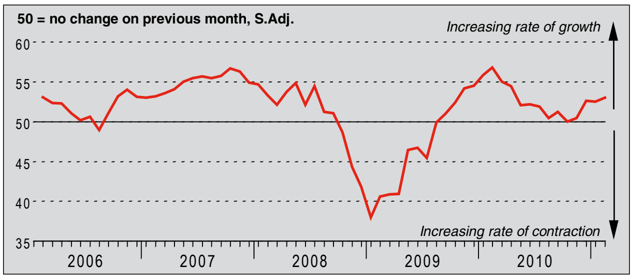


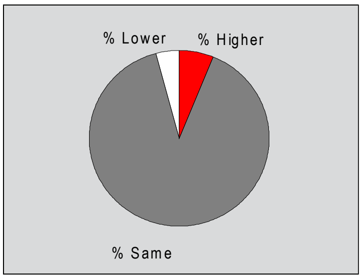


Monitored companies held a lower level of post-production goods during February. Stock levels declined marginally, in contrast to the slight increase registered in the previous survey period. Anecdotal evidence suggested that survey respondents adjusted their holdings of finished goods downwards as new policies to streamline stocks were introduced.

Employment Index

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

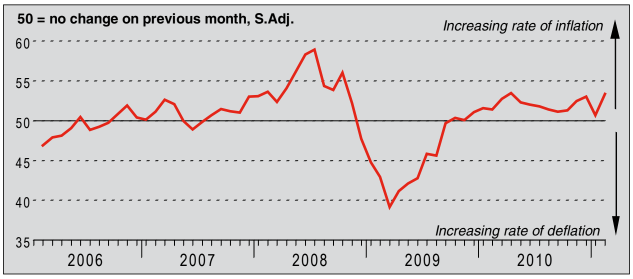


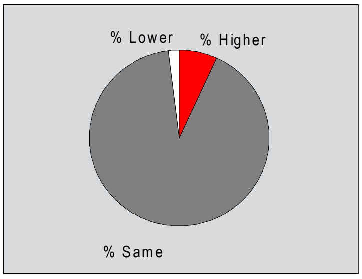


The number of people employed within the Brazilian manufacturing sector increased in February, as has been the case in each of the past four months. Moreover, the rate of job creation was the fastest in ten months and above the long-run series average. Surveyed firms increased their headcounts during the latest survey period in response to faster new order growth and the subsequent rise in 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.

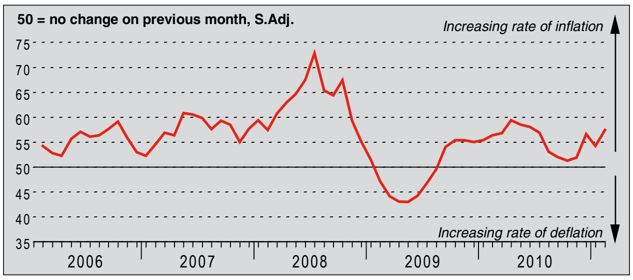


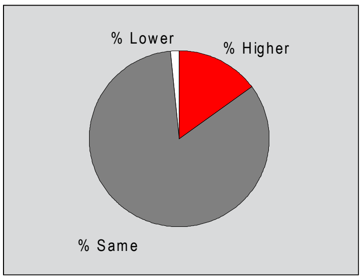


The seasonally adjusted Output Prices Index rose during February to a ten-month high. February's reading was above the long-run series average and signalled a solid increase in charges. Brazilian manufacturing companies commented on partly passing on higher cost burdens to clients during the latest survey period.

Input Prices Index

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

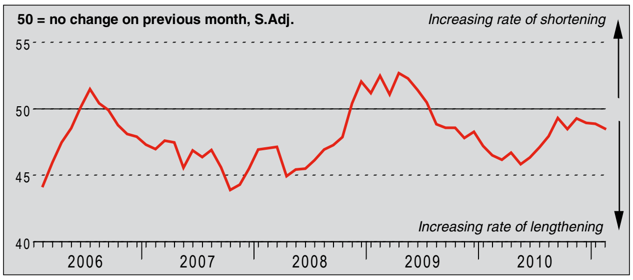


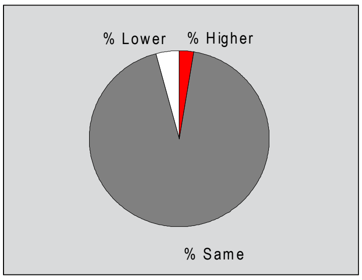


Panellists recorded greater cost burdens in February. The rate of input price inflation quickened since January to the fastest pace in eight months, as the cost of a wide range of goods rose during the latest survey period. In particular, survey respondents highlighted steel, corn and cotton as increasing in price during February.

Suppliers' Delivery Times Index

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

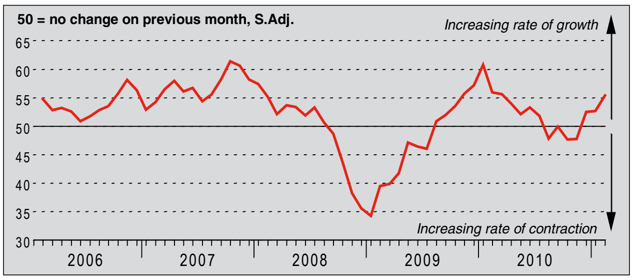


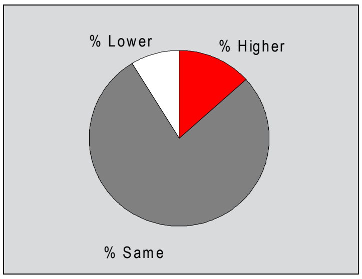


The time it took for suppliers to deliver inputs to monitored companies lengthened further in February, continuing the trend that began in August 2009. Monitored companies suggested that vendors struggled to meet greater demand for inputs and had difficulty sourcing some raw materials during February.

Quantity of Purchases Index

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

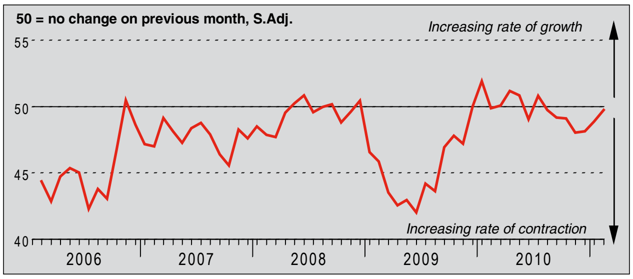


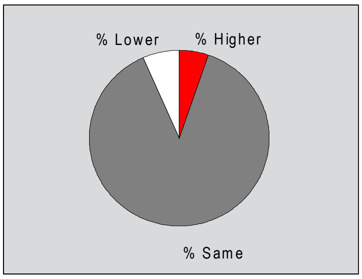


Panellists purchased a greater amount of inputs in February. This extended the sequence of purchasing growth to three months, with the latest rate of increase the strongest for eleven months. Anecdotal evidence indicated that Brazilian manufacturing companies purchased more inputs as production requirements rose during the latest survey period.

Stocks of Purchases Index

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





During February, the amount of inputs held as stock by Brazilian manufacturers decreased for the seventh consecutive month. However, the seasonally adjusted Stocks of Purchases Index posted only slightly below the 50.0 no-change level, indicating that the depletion was marginal. Monitored companies stated that higher production requirements offset efforts to boost inventories to mitigate against further price increases in February.

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