

HSBC Brazil Manufacturing PMI™

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

Summary

At 54.6 in February, up from 53.1 in January, the headline HSBC Brazil Manufacturing PMI™ indicated a strong improvement in the Brazilian manufacturing sector's business conditions. This 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 firms 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 was slower than that of input costs.

Comment

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

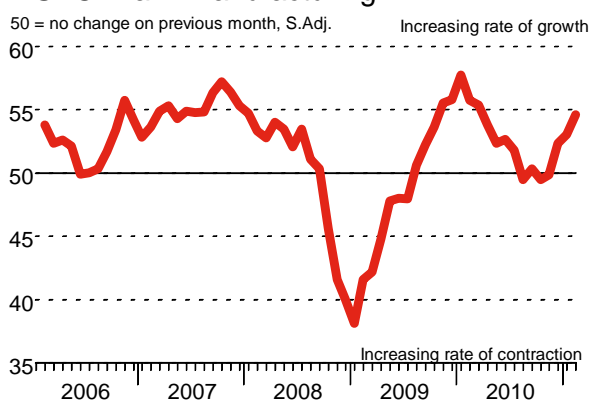
"According to the HSBC Brazil Manufacturing PMI, economic activity in Brazil's manufacturing sector gained momentum for the third consecutive month in February. The headline index rose to 54.6, from 53.1 in January, and reached its highest reading since the first quarter of last year. Considering that most analysts were looking for the economy to soften in the beginning of this year, the fact that the PMI is back to levels seen in early 2010, when the Brazilian economy was expanding at a very fast pace, is surprising. Respondents reported gains in both output and new orders, suggesting a broad expansion in economic activity. However, news on the inflation front is worrying, with both input and output prices accelerating substantially."

Key points

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

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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