

HSBC Brazil Manufacturing PMI™

PMI signalled only slight expansion in Brazilian manufacturing sector as new orders fell for second consecutive month

Summary

The HSBC Brazil Manufacturing PMI™ posted 50.8 in May, broadly unchanged from 50.7 in April, and indicated only a slight improvement in the Brazilian manufacturing sector's business conditions. Moreover, the rate of expansion remained below the long-run series average.

The overall improvement in operating conditions largely reflected further output growth. Brazilian manufacturers have reported higher production levels for seven consecutive months. Although the rate of growth was stronger than that recorded in April, it remained below the average for the series.

New work intakes fell for the second month running during the latest survey period. Panellists commented that they lost some clients due to strong competitive pressures and higher output prices. That said, the latest decrease in new business was only marginal. The rate of contraction in new export orders, however, was the fastest in six months.

Reflective of output growth and lower new order volumes, firms were able to complete some outstanding business in May. Meanwhile, stocks of finished goods were accumulated during the latest survey period.

Employment in the Brazilian manufacturing sector increased during May. This extended the current period of job creation to seven months. Anecdotal evidence indicated that respondents enlarged their workforces in light of greater production requirements. Nevertheless, employment growth was only marginal and the weakest in the current sequence.

Monitored companies increased their purchases and accumulated stocks of inputs during May. This was in contrast to the slight decreases registered in April. A number of panellists commented that purchasing activity rose in an attempt to mitigate against further suppliers' delivery delays and higher input costs.

In May, the time it took for suppliers to deliver inputs lengthened for the twenty-second consecutive month. However, the latest increase in lead times was the least substantial since last November.

Continuing the trend that began in September 2009, input prices faced by Brazilian manufacturers increased in May. The rate of input cost inflation remained strong, despite being at a four-month low, with firms reporting higher prices across a wide range of goods. Steel and oil-related products were particularly mentioned. Meanwhile, panellists successfully passed some of their greater cost burdens on to clients in May. Nevertheless, the latest rise was weaker than that recorded in April.

Comment

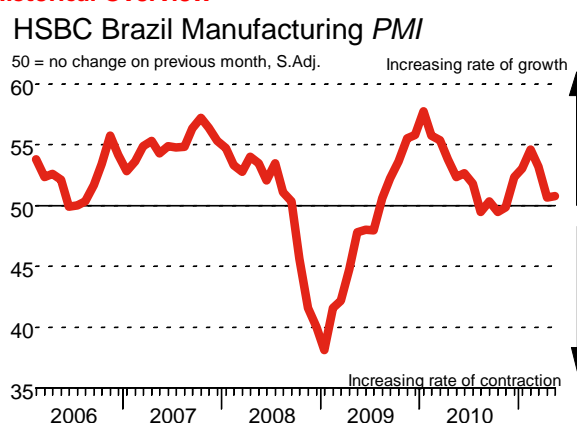
Commenting on the Brazil Manufacturing PMI survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI suggested that economic activity in Brazil's industrial sector has so far slowed considerably in the second quarter of 2011, after expanding robustly during the first quarter. The components of the PMI, however, paint a mixed picture. Industrial activity appears to have stabilized at a high level, with the Output Index actually accelerating in May. Meanwhile, the New Orders Index continued to hover just under the 50.0 waterline, as firms reported a modest contraction in new work intakes. Moreover, the Employment Index indicated that manufacturers were hiring at the slowest pace since October of last year, but the index has not signalled job losses in twenty-one consecutive months."

Key points

- Volume of new orders decreased only marginally in May.
- Job creation at seven-month low.
- Output growth remained modest.

Historical Overview



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

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Caroline Lumley, Markit Press Office
Telephone +44-20-7260-2047 / +44-781-581-2162
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC Brazil Manufacturing *PMI* 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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