

HSBC Brazil Manufacturing PMI™

PMI signals worst deterioration in overall business conditions since May 2009

Summary

Business conditions in Brazil's manufacturing sector deteriorated further in July, as indicated by the HSBC Brazil Manufacturing PMI™ – a composite indicator of underlying business trends. At 47.8, the PMI posted below the 50.0 no-change threshold for the second consecutive month and indicated a contraction in Brazil's manufacturing sector. Moreover, the rate of decline strengthened since June (49.0) to the fastest in 26 months.

Brazilian manufacturers received a lower volume of new business during July. Notably, the rate of decline quickened since June to the fastest in 27 months. Panellists generally linked the reduction in new work intakes to weaker global demand and fragile market conditions. Moreover, a number of firms also suggested that unfavourable exchange rates contributed to a decline in new export orders during the latest survey period.

Subsequently, Brazilian manufacturing companies lowered production for the second consecutive month in July. The rate of contraction was strong, and the fastest since April 2009.

The amount of work-in-hand fell during the latest survey period, with the rate of decrease strengthening since June. That said, stocks of finished goods increased for the fifth month running. The rate of inventory accumulation was moderate and above the long-run series average.

Reflective of the fall in output, monitored companies ordered fewer inputs in July. Firms also depleted their stocks of purchases. Nevertheless, suppliers' delivery times lengthened further compared with the previous survey period. The deterioration in vendor performance continued the trend that has been recorded since August 2009.

Employment in Brazil's manufacturing sector fell for the second consecutive month in July. Despite being the fastest in two years, the rate of job losses was only slight overall.

On the inflation front, input prices recorded by surveyed companies rose at the weakest pace in eight months during July. Respondents continued to pass on part of their greater cost burdens to clients during the latest survey period, but the rise in output charges remained weaker than that of input prices.

Comment

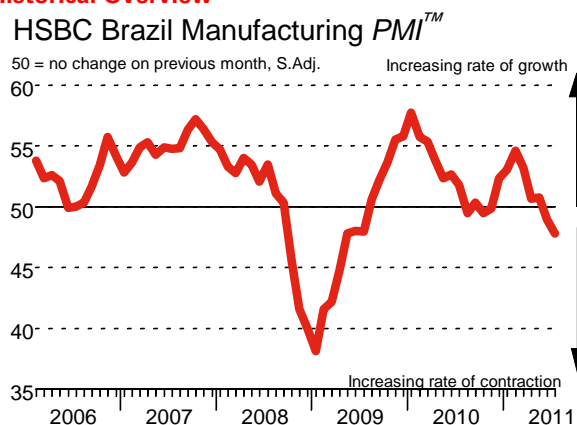
Commenting on the Brazil Manufacturing PMI survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The July HSBC Manufacturing PMI headline index fell to 47.8 – its lowest level since May 2009. This is the second consecutive month that this indicator has remained below the 50.0 waterline, reflecting a contraction in economic activity within the industrial sector. The decline of the PMI will likely be reflected in lower industrial production figures, as all key components such as output, new orders and even employment fell below 50.0 in July. We believe that the slowdown in industrial output is being driven at least in part by the erosion of the competitiveness of the domestic industrial sector as a result of the BRL strength."

Key points

- PMI posted below the 50.0 mark for the second consecutive month
- Output fell at the sharpest rate in 27 months
- Rate of input price inflation eased further from March's peak

Historical Overview



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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.

HSBC:

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