

HSBC Brazil Manufacturing PMI™

Manufacturing business conditions deteriorate at fastest pace since April 2009

Summary

The contraction in the Brazilian manufacturing sector deepened further according to August's HSBC Brazil Manufacturing PMI™ data. The headline index – a composite indicator of underlying business trends – posted 46.0 in August, down from 47.8 in July, and was the lowest reading in 28 months. Moreover, the PMI has now registered below the 50.0 no-change threshold that separates growth from contraction for three consecutive months.

Brazilian manufacturers reduced their output further in August, with the rate of decline strengthening to the fastest in 29 months. Anecdotal evidence linked the latest fall in production to deteriorating market conditions and lower client demand. Subsequently, incoming new work at monitored companies decreased during the latest survey period, with almost one-fifth of respondents reporting lower new order volumes.

Reflective of the declines in production and new orders, companies operating in Brazil's manufacturing sector reduced outstanding work in August. Backlogs were depleted at a rate faster than that registered in July. Meanwhile, stocks of finished goods increased only fractionally during the latest survey period.

The amount of inputs bought by surveyed firms decreased for the third consecutive month in August, with respondents attributing this to lower production requirements. Input inventories also fell for the third month running. Consequently, suppliers' delivery times quickened, ending the period of lengthening that started in August 2009. Panellists suggested that vendor performance had also improved as they were better positioned to supply raw materials.

Employment in the Brazilian manufacturing sector decreased further during the latest survey period. The rate of job losses was the fastest in 25 months, with around 10% of firms reducing their staffing levels since July.

Input costs faced by Brazilian manufacturers increased further in August. The rate of input price inflation was only modest, however, and below the long-run series average. Monitored companies passed on greater cost burdens to clients by raising their factory gate prices during the latest survey period. The increase in output prices was the strongest in three months, but remained weaker than the overall rise in input costs.

Comment

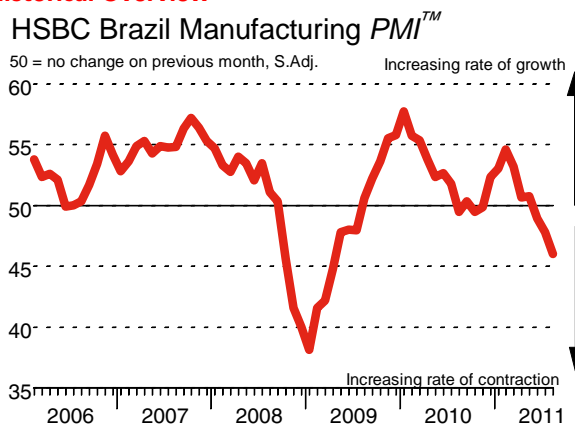
Commenting on the Brazil Manufacturing PMI survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The August HSBC Manufacturing PMI headline index fell to 46.0 – its lowest level since April 2009. This is the third consecutive month that this indicator has remained below the 50.0 waterline. With the decline in the headline index being led by the output and new order components, the latest PMI report suggests that the slowdown in Brazil's manufacturing sector is consolidating, and in our view, the risk that this will spillover to other sectors of the economy is rising."

Key points

- PMI registers below the 50.0 no-change threshold for third month running
- New order volumes fall further as global demand weakens
- Rate of job losses strongest in 25 months

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 industry contribution to Brazilian GDP. 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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