

HSBC Brazil Manufacturing PMI™

Output falls only marginally in December

Summary

Brazilian manufacturing sector business conditions deteriorated further in December, as signalled by the HSBC Brazil Manufacturing PMI™ posting below the 50.0 no-change mark that separates growth from contraction. However, at 49.1, up from 48.7 in November, the PMI signalled the weakest deterioration in the current seven-month period of decline.

Brazilian manufacturers largely attributed the deterioration to weak client demand. Correspondingly, the volume of new orders received in December fell for the ninth consecutive month. Incoming new work from abroad also fell during the latest survey period. Overall, the rate of decrease in new orders was modest, and the slowest in seven months.

Reflective of lower new orders, firms reduced production in December. However, the overall fall in output was negligible and the weakest in the current seven-month period of decline. Stocks of finished goods were also broadly unchanged, while backlogs were reduced for the ninth month running.

Panellists reduced the amount of inputs bought during the latest survey period. Subsequently, input inventories fell for the seventh consecutive month. Anecdotal evidence largely linked the fall in purchasing activity to lower production requirements. Meanwhile, suppliers' delivery times quickened during December, in contrast to the slight lengthening registered in November.

Job losses were recorded in Brazil's manufacturing sector in December. Approximately 6% of respondents reduced their workforces (while less than 2% hired additional staff), with employment falling at a solid pace overall. Panellists generally attributed lower staffing levels to declining sales in December.

Input costs faced by Brazilian manufacturers rose solidly during the latest survey period. Moreover, the rate of input price inflation strengthened in December to a six-month high. Panellists particularly mentioned plastics and food as having increased in price.

Meanwhile, factory-gate prices also increased in December, in contrast to the reduction registered in November. Output charges rose modestly overall, with the rate of inflation the fastest since August.

Comment

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

"The main message from the latest HSBC Manufacturing PMI index is that the deterioration in Brazil's manufacturing sector business conditions continued to ease in December. The headline index remains just under the 50.0 waterline (49.1), indicating that the sector is still contracting, but this was nonetheless the third consecutive monthly rise in the PMI. Overall, the PMI suggests that the worst of the current economic downturn may indeed be behind us."

Key points

- Production decreases at weakest rate in current seven-month period of decline
- Solid rate of job losses
- Rate of input price inflation quickens to six-month high

Historical Overview



Sources: HSBC, Markit.

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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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