

HSBC Brazil Manufacturing PMI™

Further declines in both output and new orders in July

Summary

July data signalled a further deterioration in manufacturing business conditions in Brazil, with survey respondents largely citing weak client demand. Both output and new orders fell for the fourth month running, albeit at slightly weaker rates than those registered in June, and firms reduced their workforces to the greatest extent in three years. Inflationary pressures meanwhile eased over the month, with the rate of input price inflation having slowed to a four-month low.

After adjusting for seasonal variation, the HSBC Brazil Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted below the 50.0 no-change mark for the fourth consecutive month in July. At 48.7, up only slightly from 48.5 in June, the PMI was the second-lowest in eight months and signalled a modest deterioration in manufacturing business conditions.

Brazilian manufacturers received a lower volume of new work in July, continuing the trend that has been registered in each month since April. Firms that reported a reduction in new orders (approximately 15%) generally linked this to weak client demand. New export orders also fell over the month, as exporters were affected by unfavourable exchange rates. Overall, total new orders fell modestly in July, albeit at a slightly weaker rate than that reported for June.

Reflective of lower new order requirements, monitored companies reduced their output further during July. Although the rate of decline was only modest, production nonetheless fell at the second-strongest pace in nine months. Backlogs of work meanwhile declined further in July, and stocks of finished goods were depleted at the fastest pace since March.

Suppliers' delivery times lengthened for the seventh consecutive month in July. Panellists generally commented on transportation delays. The latest deterioration in vendor performance was only marginal, however, with the corresponding index only slightly below the neutral threshold.

Employment in Brazil's manufacturing sector declined for the fourth successive month in July. Approximately 8% of panellists reduced their headcounts from June, with lower new work intakes often cited. Moreover, the latest round of job losses was the strongest in three years.

Firms reported a further increase in input costs during the latest survey period, with raw materials such as food

and steel particularly mentioned as having increased in price. However, the rate of input price inflation nonetheless slowed to the weakest in four months.

Comment

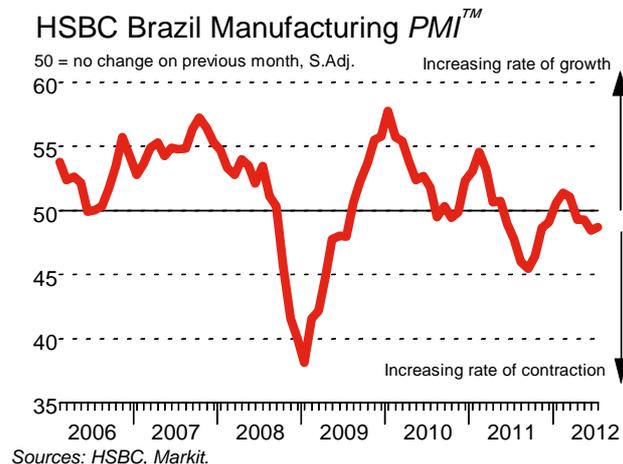
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Manufacturing PMI stabilized in July, rising from 48.5 last month to 48.7. On the whole, the headline index and its key components remained below the 50 threshold, suggesting that the industrial sector in Brazil continued to contract in July. But at least this decline in economic activity appears to be losing momentum, with the very modest rise in the headline PMI index being led by improvements in both the output and new orders indices."

Key points

- Modest reductions in both output and new orders, but rates of contraction ease slightly from June
- Staff headcounts fall at fastest rate in three years
- Weakest increase in input prices since March

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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