

HSBC Brazil Manufacturing PMI™

Output growth at seven-month high

Summary

Manufacturing companies in Brazil signalled output growth in October, in line with expanding new orders. In contrast, new export orders fell for the nineteenth consecutive month. Job losses were recorded for a further month as firms attempted to reduce costs. In line with rising input prices, output charges increased again, although at a slower pace than purchase costs. Meanwhile, pre- and post-production inventories were both depleted.

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, where readings above 50.0 indicate expansion and readings below 50.0 signal contraction – posted 50.2 in October. This was up from the reading of 49.8 in September, indicating an improvement in the health of the sector. Although only fractional, operating conditions improved for the first time since March.

Output in the Brazilian manufacturing sector expanded in October. Although slight, the rate of increase was at a seven-month high. Order book volumes also increased, but only at a marginal rate. Anecdotal evidence suggested that stronger demand led to higher sales volumes. However, new export orders fell again, marking a 19-month sequence of contraction. According to panel members, the European economic crisis negatively affected their export business.

Input price inflation at manufacturing firms in Brazil was recorded in October, amid reports of unfavourable exchange rate conditions and higher petrochemical prices. Some firms also linked rising purchase costs to general inflation and droughts in the US. The rate of input cost inflation was solid, but the slowest in three months. Consequently, charges rose for a further month. That said, the rate of increase was modest and at its weakest since July.

Workforces in the Brazilian goods-producing sector fell for the seventh consecutive month, as firms attempted to reduce staffing costs. However, the pace of job losses was only slight.

Pre-production inventories at manufacturing firms in Brazil fell for the seventeenth consecutive month. Exactly 7% of respondents signalled a depletion in their stocks of purchases, citing intentional reduction to support production requirements and attempts to reduce the costs of inventory management. Post-production inventories also fell, but at a fractional rate.

Stocks of finished goods have decreased throughout the past 14 months.

Meanwhile, purchasing activity contracted slightly in the latest month amid reports of intentions to reduce costs. Suppliers' delivery times increased, marking a ten-month sequence of lengthening. Poor highway conditions and delays in the delivery of imported goods were mentioned by panel members as factors affecting vendor performance.

Comment

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

"The HSBC Manufacturing PMI moved to positive territory for the first time since March, rising from 49.8 in September to 50.2 in October. Both the output and the new orders components also gained ground. The October manufacturing PMI report provides further evidence that the rebound is gaining traction, even if the overall pace of growth remains modest."

Key points

- First expansion in new orders since March...
- ...despite nineteenth successive contraction in new export orders
- Input price inflation eases from September's 15-month high

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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