

HSBC Brazil Manufacturing PMI™

September data highlights renewed growth of manufacturing output in Brazil

Summary

Following a two-month sequence of contraction, manufacturing production across Brazil rose in September. New orders and export business both fell at slower rates, leading firms to increase their buying activity. Input and output price inflation accelerated, with the former reaching a 59-month peak.

The headline HSBC Brazil *Purchasing Managers' Index*™ (PMI™) increased from 49.4 in August to 49.9 in September. The latest reading indicated that operating conditions across the country's manufacturing economy were broadly unchanged. However, the PMI average for the third quarter of the year was the lowest since Q3 2012.

Output rose for the first time in three months, as manufacturers worked through their backlogs during September. The rate of expansion was, however, only slight. Sector data highlighted production growth across two of the three monitored categories, namely consumer and investment goods.

New orders contracted at a marginal and slower pace in September. Whereas new work received by investment goods companies fell solidly, rises were recorded at both intermediate and consumer goods firms. Survey participants reporting lower volumes of incoming new work largely commented on economic instability, deteriorating client confidence and increased external competition.

Concurrently, new orders from abroad fell for the sixth successive month in September. The decline in export business was, however, slightly slower than that seen in August. Although manufacturers highlighted increased enquiries from Europe and Argentina, higher import costs had limited firms' ability to competitively price.

Reflective of lower new business levels, Brazilian manufacturers reduced their workforce numbers further. That said, the rate of job cuts in September was only slight and the weakest since April. Lower payroll numbers were signalled by investment and intermediate goods producers, while jobs growth was recorded in the consumer goods sector.

September data pointed to a sharp and accelerated rate of input cost inflation in the Brazilian manufacturing economy, with the index measuring purchase prices climbing to its highest mark in almost five years. Panellists indicated that a depreciation of the Brazilian real against the US dollar had resulted in higher import costs.

Consequently, firms raised their selling prices further and all three sectors covered by the survey registered stronger rates of charge inflation.

Meanwhile, purchasing activity rose for the first time in three months during September, amid reports of restocking attempts. Raw material shortages at vendors, however, led to longer delivery times and pre-production stocks contracted (albeit marginally).

Comment

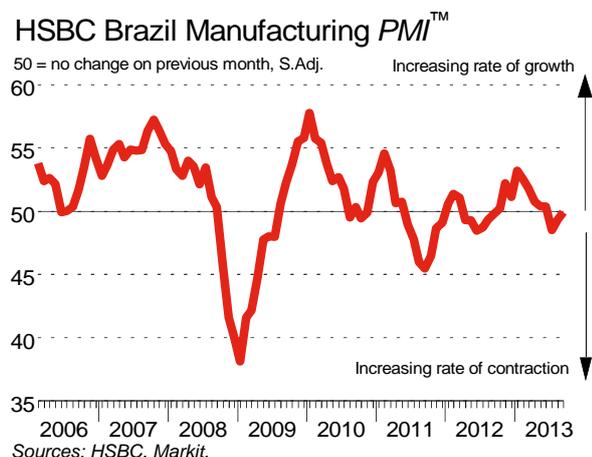
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI ended September at 49.9 – an improvement relative to 49.4 in August – practically indicating stability of activity in the manufacturing sector. Output expanded for the first time since June, while the new orders, new export orders and employment components remained slightly below the 50 watermark level. The rise in input prices accelerated in September, with companies mentioning the weaker BRL. Although weaker than cost inflation, output price inflation also accelerated, reinforcing an upside inflation risk."

Key points

- Production increases for first time in three months
- New orders and export business contract at marginal and slower rates
- Input price inflation strongest in almost five years

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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