

# HSBC Brazil Manufacturing PMI™

## PMI posts above 50.0 threshold for first time in four months during October

### Summary

Operating conditions across Brazil's manufacturing economy improved in October, albeit fractionally. Despite stagnant new orders and a faster decline in export business, output rose at the quickest pace since May.

Up from 49.9 in September to 50.2 in the latest month, the seasonally adjusted HSBC Brazil *Purchasing Managers' Index*™ (PMI™) posted above the crucial 50.0 threshold for the first time in four months. Nonetheless, October's reading was consistent with only a fractional improvement in operating conditions.

Manufacturers raised their production levels, amid expectations of better economic conditions and forecasts of stronger client demand. Production growth was moderate, but the quickest since May. All three monitored sub-sectors recorded higher output, with the fastest rise noted at consumer goods firms.

Following three successive months of contraction, incoming new work stabilised in October. Sector data indicated that new order growth at consumer and intermediate goods producers offset a decline noted in the capital goods category. Export orders, however, fell at the fastest pace since July. Anecdotal evidence pointed to lower demand from clients in Europe and the US. The downturn in foreign business during October was broad-based, with all three sub-sectors covered by the survey posting declines.

Subsequently, workforce numbers were reduced in October, stretching the current sequence of job shedding to seven months. The rate of reduction was, however, only slight as the majority of respondents (92%) indicated no change in their staffing levels since last month.

Reflecting the lack of new projects, Brazilian manufacturers worked through their backlogs in October. Unfinished business levels fell for the eighth month running, with the rate of contraction remaining solid.

Average purchase prices rose further in October, and the rate of cost inflation reached a five-year high. Survey participants indicated that the weaker Real had resulted in higher prices paid for imported raw materials (in particular from the US). The sharpest rise was noted at capital goods firms.

Concurrently, average selling prices were raised again in October. The overall rate of charge inflation accelerated to the joint-strongest in the survey history (equal to July 2008).

Stock levels in the Brazilian manufacturing economy fell in October, as companies attempted to reduce the costs of inventory management. Whereas the decline in post-production stocks eased to a marginal pace, holdings of raw materials and semi-manufactured goods contracted at a faster rate than that seen in September.

### Comment

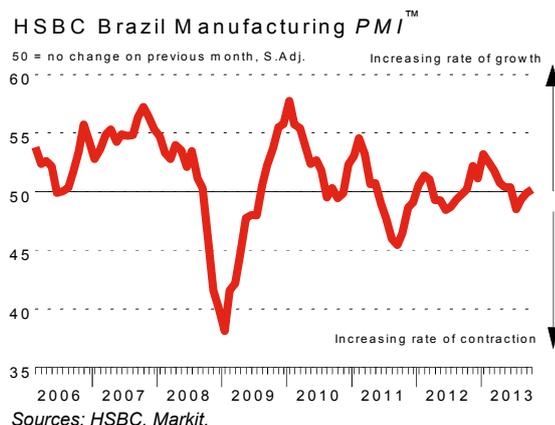
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

*"The HSBC Brazil Manufacturing PMI is back in black. After three months in the red – indicating a contraction in economic activity across the industrial sector – the headline index is back above the 50 mark, rising from 49.9 in September to 50.2 in October. Firms reported that output growth accelerated in October, but that orders are still practically unchanged relative to September. On the negative side, payrolls fell for the seventh consecutive month, the rate of output price inflation soared to its joint-strongest in the survey history and input costs rose at the fastest pace since October 2008."*

### Key points

- At 50.2, PMI signals fractional improvement of manufacturing sector business conditions
- Output growth strongest in five months
- New orders stabilise, but decline in export business accelerates

### 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*<sup>™</sup> (*PMI*<sup>™</sup>) 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](mailto:economics@markit.com).

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