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# HSBC Brazil Manufacturing PMI™

Business conditions improve for first time in eight months

#### Key findings:

- PMI posts above 50.0 no-change mark, suggesting growth for first time since May
- Both output and new orders increase in January
- Firms hire additional staff, ending a seven-month period of job losses

January data showed an improvement in Brazilian manufacturing sector business conditions, with both output and new orders rising since December. Although only modest, the improvement in operating conditions was in contrast to the deteriorations reported in each of the past seven months. On the job front, Brazilian manufacturers hired additional staff in January, with growth the strongest in nine months. Meanwhile, output charges fell during the latest survey period, albeit only fractionally.

After adjusting for seasonal variation, the HSBC Brazil Purchasing Managers' Index  $^{\text{TM}}$  (PMI $^{\text{TM}}$ ) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted above the 50.0 nochange mark that separates growth from contraction in January. At 50.6, up from 49.1 in December, the PMI indicated a modest improvement in business conditions, and the first since May.

The improvement in operating conditions partly reflected an increase in incoming new work. New order growth was modest, but in contrast to declines registered in each of the previous nine months. Firms generally commented on greater client demand in January. New work intakes from abroad continued to fall, albeit at the weakest pace since April.

Reflective of the increase in total new orders, Brazilian manufacturing firms stepped up production in January. Output rose modestly, the first increase in eight months. Stocks of finished goods were depleted in order to fulfil some new order

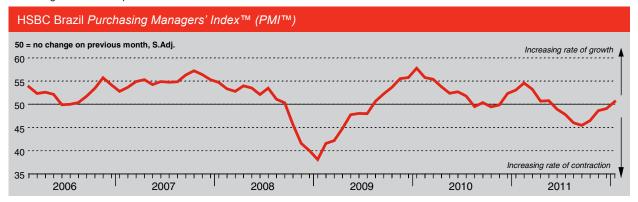
requirements, while outstanding business decreased for the tenth consecutive month.

Firms operating in Brazil's manufacturing sector bought a lower amount of inputs during the latest survey period. However, the latest reduction in purchases was only fractional, with the majority of survey respondents reporting no-change in buying activity. Meanwhile, input inventories were depleted further, with the rate of decrease unchanged since December. Concurrently, lead times on inputs lengthened to the greatest extent in six months during January.

Brazilian manufacturers hired additional staff in January, ending the period of job losses that began last June. Where employment growth was reported, panellists generally commented on greater production requirements.

Respondents reported higher input prices in January, extending the current period of inflation to 29 months. Chemicals and food were particularly mentioned by panellists as having increased in cost. Overall, the rise in input prices was moderate, albeit weaker than the long-run series average.

Meanwhile, average selling prices fell during the latest survey period. Anecdotal evidence indicated that output charges were lowered in order to boost new order volumes. That said, factory gate prices were reduced only fractionally in January, with approximately 97% of firms keeping charges unchanged since December.



The HSBC Brazil *Purchasing Managers' Index (PMI)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index* and *PMI* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

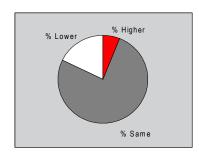




#### **Output Index**

Q. Please compare your production/output this month with the situation one month ago.



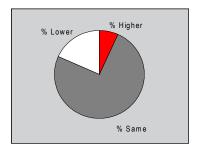


Production at Brazilian manufacturers increased for the first time in eight months during January. This was signalled by the seasonally adjusted Output Index posting above the 50.0 no-change mark that separates growth from contraction. Panellists generally linked the rise in output to greater client demand. Nonetheless, the expansion in manufacturing production was only modest and weaker than the long-run series average.

#### **New Orders Index**

Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.





In contrast to the declines that were registered in each month since April, the volume of new orders received by Brazilian manufacturing companies increased in January. New work intakes rose modestly, with growth only slightly slower than the long-run series average. Overall, incoming new work largely originated within Brazil, as new export orders continued to fall during the latest survey period.

# New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.



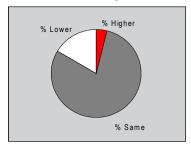


Monitored companies reported a further fall in new export orders in January, taking the current period of decline to ten months. Approximately 7% of surveyed firms registered a reduction in incoming new work from abroad (while only 2% recorded an increase), with panellists largely commenting on weakness in the global economy. That said, the rate of decrease eased since December to the slowest in nine months.

# Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

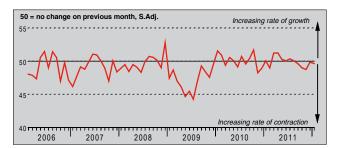


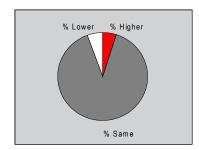


Outstanding business was depleted for the tenth consecutive month in January, as signalled by the seasonally adjusted Backlogs of Work Index remaining below the 50.0 no-change threshold. However, the index rose further from September's two-and-a-half year low, and suggested that the latest rate of contraction was the weakest in eight months.

#### Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



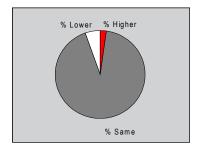


Brazilian manufacturing companies reduced stocks of finished goods for the fifth successive month in January. The latest fall in inventories was only marginal, but nonetheless stronger than that registered in December. Anecdotal evidence provided by panellists suggested that stocks of post-production goods were run down to partly fulfil some new orders during the latest survey period.

#### **Employment Index**

Q. Please compare the level of employment at your unit with the situation one month ago.



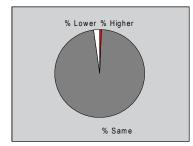


Firms operating in Brazil's manufacturing sector hired additional staff in January, ending the period of job losses that began last June. Panellists that added to their payroll generally commented on greater production requirements during the latest survey period. Employment growth was the fastest since last April, but nonetheless remained slower than the long-run series average.

# **Output Prices Index**

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



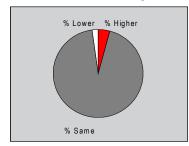


Following a modest rise in average selling prices in the previous survey period, Brazilian manufacturers reduced their output charges in January. However, only 2% of survey respondents reported a fall in factory gate prices, with the rate of deflation only marginal overall. Where output charges decreased, firms largely linked the price reduction to attempts to boost new order volumes.

# Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



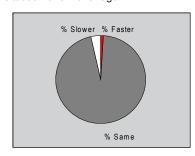


Continuing the trend that began in September 2009, input costs rose further during January. Chemicals, petroleum and food were all particularly mentioned by panellists as having increased in price during the latest survey period. That said, the rate of input price inflation eased since December's six-month high, was slower than the long-run series average, and moderate overall.

#### Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

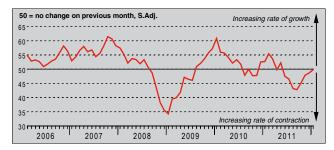


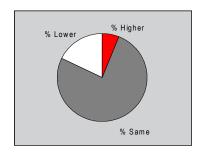


In contrast to the reduction reported in December, lead times on inputs increased in January. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change mark that separates an improvement from a deterioration in vendors' performance. Overall, suppliers' delivery times lengthened at the greatest extent in six months during the latest survey period.

#### Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



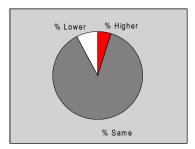


The amount of inputs purchased by Brazilian manufacturers decreased for the eighth consecutive month in January. This was indicated by the seasonally adjusted Quantity of Purchases Index posting below the 50.0 no-change level that separates growth from contraction. Nevertheless, the latest reduction in input buying was only fractional, with the index only marginally below this threshold.

# Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Brazilian manufacturing firms reported a further depletion of input inventories in January. A number of monitored companies attributed the latest decline to leaner stock holding policies that were recently introduced. Overall, the rate of decrease of pre-production goods inventories was moderate and at the same pace at that registered in December.

#### Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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 $^{-1}$  (PMI $^{-1}$ ) 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.

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