

HSBC Brazil Manufacturing PMI™

New order growth strengthens to 11-month high in February

Key findings:

- Solid increases in both output and new orders
- Employment growth fastest since March 2011
- PMI posts above 50.0 no-change mark for second month running

February data signalled a further improvement in manufacturing sector business conditions in Brazil, with firms generally linking this to greater client demand. Notably, both output and new orders increased for the second month running and at the fastest rates in nine and 11 months respectively. Concurrently, Brazilian manufacturing companies added to their workforces in February, with the rate of job creation the strongest since March 2011.

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 – registered above the 50.0 no-change threshold that separates growth from contraction for the second consecutive month in February. At 51.4, up from 50.6 in January, the improvement in Brazilian manufacturing business conditions was solid and to the greatest extent in 11 months.

Brazilian manufacturers generally linked the improvement in operating conditions to greater client demand. Approximately 15% of monitored companies reported larger volumes of new work in February, compared with around 13% that registered a reduction. Overall, growth was solid and the fastest in 11 months. New export orders meanwhile were broadly unchanged from January.

Reflective of the rise in new order inflows, manufacturing firms in Brazil raised production and depleted stocks of finished

goods during February. Output levels increased solidly, and at the strongest pace since last May. Nonetheless, backlogs of work were accumulated during the latest survey period, albeit only marginally.

Firms bought a larger amount of inputs in February, in contrast to the reductions reported in the previous eight months. Meanwhile, input inventories were depleted for the ninth consecutive month, with a number of monitored companies attributing this to larger production requirements. Concurrently, suppliers' delivery times lengthened further during the latest survey period. Anecdotal evidence provided by survey respondents suggested that vendors had struggled to meet greater demand for inputs in February.

Employment in Brazil's manufacturing sector increased for the second consecutive month in February. Exactly 7% of firms hired additional staff, with the overall rate of job creation solid and the fastest in 11 months.

Monitored companies reported a further increase in input costs during the latest survey period. Panellists particularly mentioned oil and food as having increased in price. Although the rate of input price inflation quickened since January, it nonetheless remained weaker than the long-run series average. That said, output charges were broadly unchanged in February, with the vast majority of respondents (approximately 92%) keeping factory gate prices the same as in January.

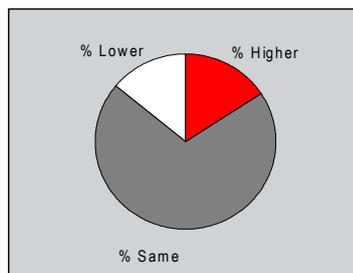
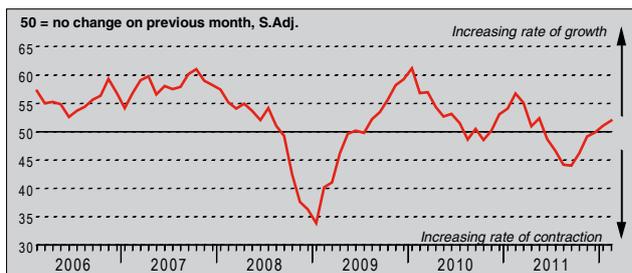
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

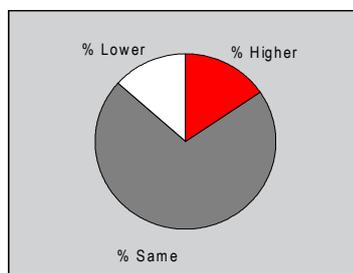
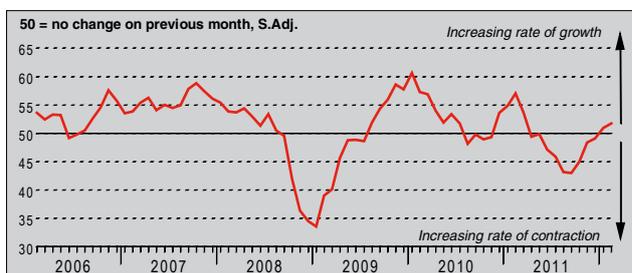
Q. Please compare your production/output this month with the situation one month ago.



Brazilian manufacturers raised production for the second month running in February. Moreover, the latest expansion in output was solid and the strongest since last May. Approximately 16% of surveyed firms reported higher output compared with one month earlier, while exactly 14% registered a decline. Where an increase in production was recorded, panellists largely linked this to greater client demand.

New Orders Index

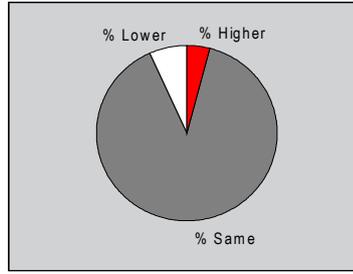
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Incoming new work at Brazilian manufacturing companies increased for the second consecutive month in February. Anecdotal evidence provided by monitored companies generally attributed gains in new order volumes to greater client demand. Overall, the rate of growth quickened since January to the fastest in 11 months.

New Export Orders Index

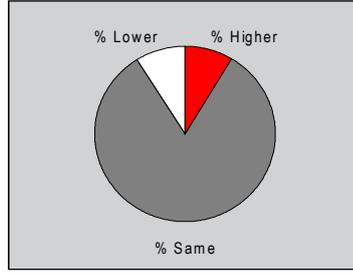
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export orders received by Brazilian manufacturers was broadly unchanged in February. This was indicated by the seasonally adjusted New Export Orders Index posting close to the 50.0 no-change mark. Where a reduction in new work from abroad was reported, firms generally commented on the European crisis, while companies that recorded an increase largely attributed this to greater demand in key export markets.

Backlogs of Work Index

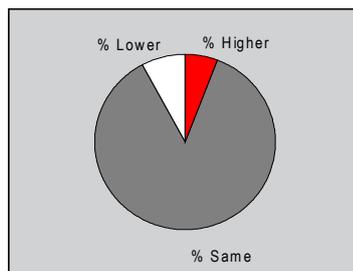
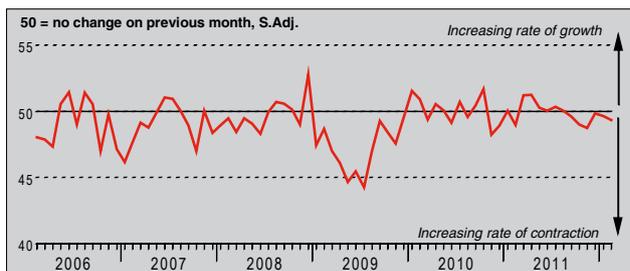
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Reflective of the rise in new order volumes, work-in-hand at Brazilian manufacturers increased in February. This was signalled by the seasonally adjusted Backlogs of Work Index registering above the 50.0 no-change threshold that separates accumulation from depletion. Although the index indicated only a marginal increase in outstanding business during February, it was nonetheless in contrast to declines recorded in each of the past ten months.

Stocks of Finished Goods Index

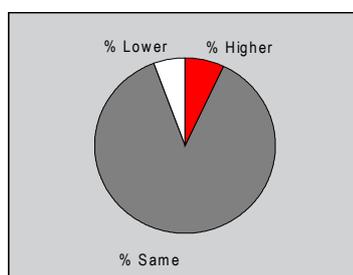
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Continuing the trend that has been registered in each month since last September, stocks of finished goods were depleted by Brazilian manufacturing firms in February. Approximately 8% of survey respondents reduced inventories of post-production goods, generally attributing the decline to larger new order requirements. Although stock levels fell marginally in February, it was at the fastest pace in three months.

Employment Index

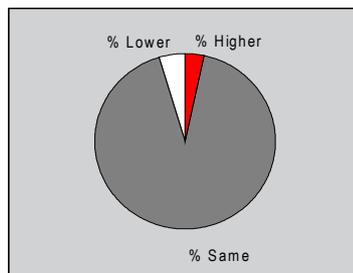
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in Brazil's manufacturing sector increased for the second consecutive month in February. Firms that hired additional staff (exactly 7%) generally linked job creation to larger production requirements during the latest survey period. Notably, employment growth was solid and stronger than the long-run series average, with the seasonally adjusted Employment Index rising 1.3 points since January to an 11-month high.

Output Prices Index

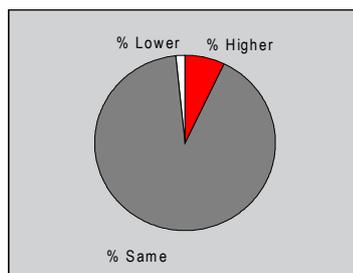
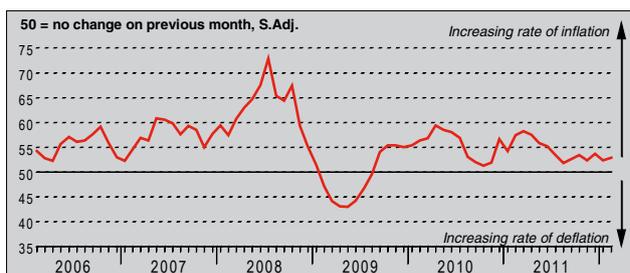
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



In February, Brazilian manufacturers kept output charges virtually unchanged from that reported in January. This was indicated by the seasonally adjusted Output Prices Index posting broadly at the 50.0 no-change level. The majority of firms (approximately 92%) neither increased nor decreased factory gate prices, as the need to pass on greater cost burdens to clients was largely balanced by the desire to boost new order volumes.

Input Prices Index

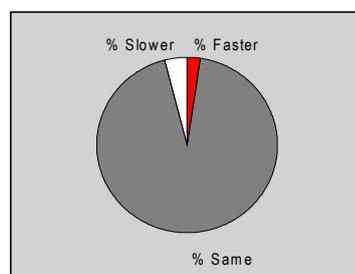
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by Brazilian manufacturing firms increased solidly during February. Panellists reported higher prices for a wide range of inputs, with oil and food particularly mentioned. Concurrently, the rate of input price inflation quickened since January, but nonetheless remained weaker than the historic series average.

Suppliers' Delivery Times Index

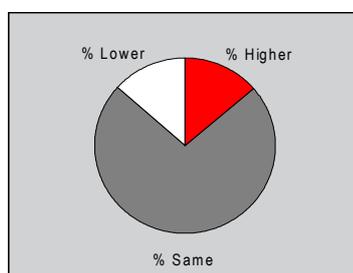
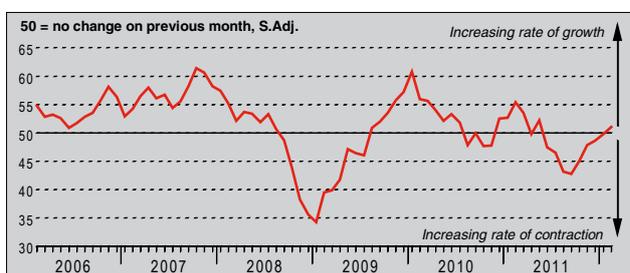
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the second month running in February. Lead times increased solidly, and to the greatest extent since last July. Where a deterioration in vendor performance was reported, firms generally suggested that suppliers had struggled to meet greater demand for inputs during the latest survey period.

Quantity of Purchases Index

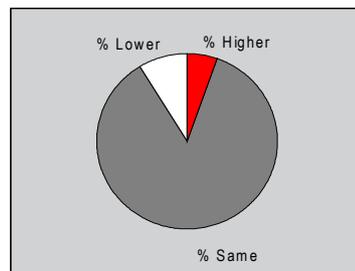
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In contrast to the reductions reported in each month since June 2011, Brazilian manufacturing companies purchased a larger amount of inputs in February. This was indicated by the seasonally adjusted Quantity of Purchases Index posting above the 50.0 no-change mark that separates growth from contraction. Respondents attributed the increases in buying activity to larger production requirements, though the overall rise in purchases was only moderate.

Stocks of Purchases Index

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



Brazilian manufacturers depleted their input holdings further during February. Lower inventories of pre-production goods have been recorded in each of the past nine months. Approximately 9% of surveyed firms reduced their stocks of purchases (while 5% increased their inventory holdings), and generally attributed declines to larger production requirements.

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™ (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.

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