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# HSBC Brazil Manufacturing PMI™

Output increases for first time since March

#### **Key findings:**

- Production rises despite contraction of new orders
- Output growth supported by depletion in backlogs of work
- Input price inflation accelerates to the fastest since June 2011

Production in the Brazilian manufacturing sector increased in September. Whereas new orders and new export orders both fell, companies depleted backlogs to support production. Stocks of purchases and purchasing activity also fell in the reporting month. Input and output price inflation persisted. Meanwhile, workforces contracted for the sixth successive month.

After adjusting for seasonal factors, the HSBC Brazil *Purchasing Managers' Index*<sup>TM</sup>  $(PMI^{TM})$  – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted below the 50.0 no-change mark in September, indicating a further deterioration in the health of the sector. The PMI posted 49.8, up from the reading of 49.3 in August, to signal only a fractional decline and the slowest drop in the current sequence of contraction.

Output increased slightly in September, the first expansion recorded since March. Panel respondents indicated that production increased as firms prepared for the launch of new products. Furthermore, firms used the depletion of backlogs of work to support output growth.

New orders fell slightly, marking a six-month sequence of contraction. Anecdotal evidence suggested that weaker demand led to lower order book volumes. New export orders also fell, and at a slight pace.

Pre-production inventories at manufacturing companies in Brazil fell during September. However, the rate of depletion was

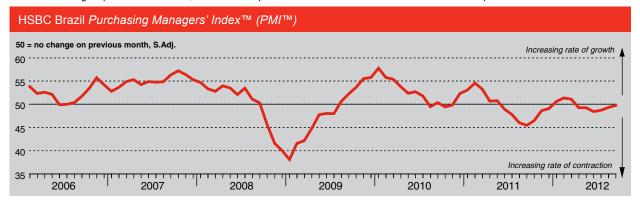
only slight and broadly unchanged from that recorded in August. Stocks of finished goods also decreased, marking a 13-month sequence of depletion. The pace of contraction, however, was only fractional.

Input prices in the Brazilian manufacturing sector increased for the thirty-seventh successive month. The pace of inflation was solid and the fastest since June 2011. Anecdotal evidence suggested that input costs increased in line with higher steel and raw material prices. Moreover, firms stated that prices were adjusted to reflect general inflation.

Manufacturers passed the burden of higher purchase costs on to their clients as charges increased again in September. The rate of output price inflation was solid but broadly unchanged from that recorded in August. Charges have increased in each of the past seven months.

Payroll numbers fell in September, amid reports of weaker demand. The pace of job losses was, however, only slight and the slowest since May. Meanwhile, backlogs of work contracted modestly. That said, the rate of depletion accelerated from August.

Purchasing activity contracted moderately and at a similar rate to August. Average lead times, meanwhile, deteriorated for the ninth successive month. According to respondents, precarious road conditions affected vendor performance.



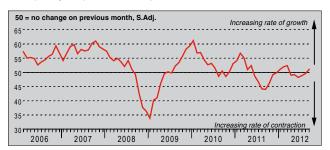
The HSBC Brazil *Purchasing Managers' Index (PMI)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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.

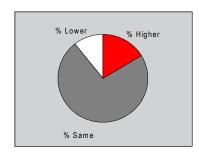




#### **Output Index**

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



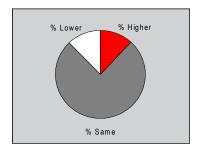


Manufacturing firms in Brazil signalled an increase in output during September, ending a five-month sequence of contraction. However, the pace of expansion was only slight and the Output Index adjusted for seasonal variations posted below its long-run average. Panellists indicated that preparations for the launch of new products had helped to increase production during the month. Moreover, firms used the depletion of backlogs of work to support output growth.

#### New Orders Index

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



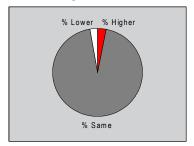


Order book volumes at manufacturing companies in Brazil contracted for the sixth successive month in September. Although only slight, the pace of contraction accelerated from that recorded in August. The vast majority (76%) of respondents indicated no change in new orders from the previous month. Anecdotal evidence suggested that order book volumes fell as demand continued to weaken.

# New Export Orders Index

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



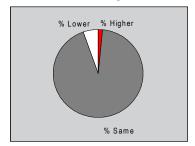


New export orders in the Brazilian manufacturing sector fell in September, marking an 18-month sequence of contraction. That said, the pace of decline was only slight and broadly in line with that seen in August. The seasonally adjusted New Export Orders Index posted below the no-change mark of 50.0 which separates contraction from expansion. That said, it was above the series' long-run trend.

# Backlogs of Work Index

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

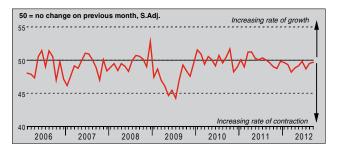


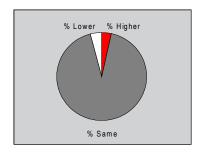


The volume of work-in-hand (but not yet completed), in the Brazilian goods-producing sector fell during September. The rate of depletion was moderate but accelerated from August. According to respondents, backlogs of work fell as sales volumes decreased. Whereas approximately 5% of monitored companies signalled falling backlogs of work, the vast majority (93%) reported no change.

#### Stocks of Finished Goods Index

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



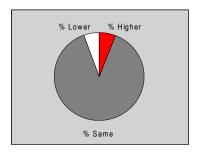


Post-production inventories at manufacturing companies in Brazil fell for the thirteenth successive month in September. However, the rate of contraction was only fractional, and the Stocks of Finished Goods Index adjusted for seasonal factors posted just below the no-change mark of 50.0. From the survey panel, approximately 92% reported no change in post-production inventories from August.

#### **Employment Index**

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



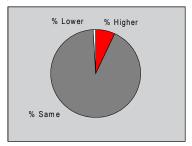


Job losses were signalled in the Brazilian manufacturing sector during September. Moreover, the seasonally adjusted Employment Index posted below its long-run trend. Manufacturers stated that payroll numbers were reduced in line with weaker demand. Employment in the sector has contracted for six successive months, with the pace of reduction in the latest month only slight.

# **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.



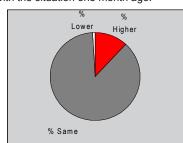


Output prices at manufacturing companies in Brazil increased during September, amid reports of higher input costs. The pace of inflation was solid and broadly similar to that recorded in August. Furthermore, charges in the sector have risen in each of the past seven months, and the Output Prices Index adjusted for seasonal factors posted above its long-run average.

# Input Prices Index

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



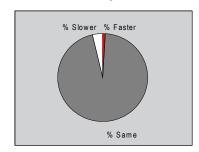


Input costs at manufacturing companies in Brazil increased in September, extending the current inflationary period to a 37-month sequence. Monitored companies stated that input prices increased in line with general market inflation. In particular, companies indicated higher steel and raw material prices. The rate of input price inflation was solid and accelerated to the fastest since June 2011.

#### Suppliers' Delivery Times Index

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



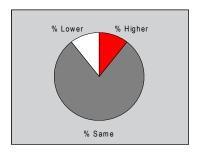


Average lead times in the Brazilian manufacturing sector lengthened in September. Vendor performance has deteriorated in each of the past nine months, with the pace of lengthening accelerating to the fastest since April. Manufacturers stated that lead times increased due to a public sector strike and precarious road conditions.

#### Quantity of Purchases Index

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



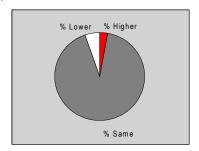


Purchasing activity in the Brazilian manufacturing sector fell in September, amid reports of weaker demand. Additionally, survey respondents indicated that the quantity of purchases decreased as existing inventories were used to meet production requirements. The rate of contraction was modest and broadly similar to that seen in August. Moreover, the Quantity of Purchases Index adjusted for seasonal factor posted below the series' long-run trend. Input buying has fallen in each of the past six months.

# Stocks of Purchases Index

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





Pre-production inventories at manufacturing companies in Brazil fell in September, marking a 16-month sequence of depletion. With approximately 5% of respondents indicating lower stocks of purchases but 92% reporting no change, the pace of contraction was only slight. Additionally, the seasonally adjusted Stocks of Purchases Index posted above the series' long-run trend.

#### 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 $^{-\infty}$  (PMI $^{-\infty}$ ) 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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