

# HSBC Brazil Manufacturing PMI™

Output growth at seven-month high

**Key findings:**

- First expansion in new orders since March...
- ...despite nineteenth successive contraction in new export orders
- Input price inflation eases from September's 15-month high

Manufacturing companies in Brazil signalled output growth in October, in line with expanding new orders. In contrast, new export orders fell for the nineteenth consecutive month. Job losses were recorded for a further month as firms attempted to reduce costs. In line with rising input prices, output charges increased again, although at a slower pace than purchase costs. Meanwhile, pre- and post-production inventories were both depleted.

After adjusting for seasonal variations, the HSBC Brazil *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy, where readings above 50.0 indicate expansion and readings below 50.0 signal contraction – posted 50.2 in October. This was up from the reading of 49.8 in September, indicating an improvement in the health of the sector. Although only fractional, operating conditions improved for the first time since March.

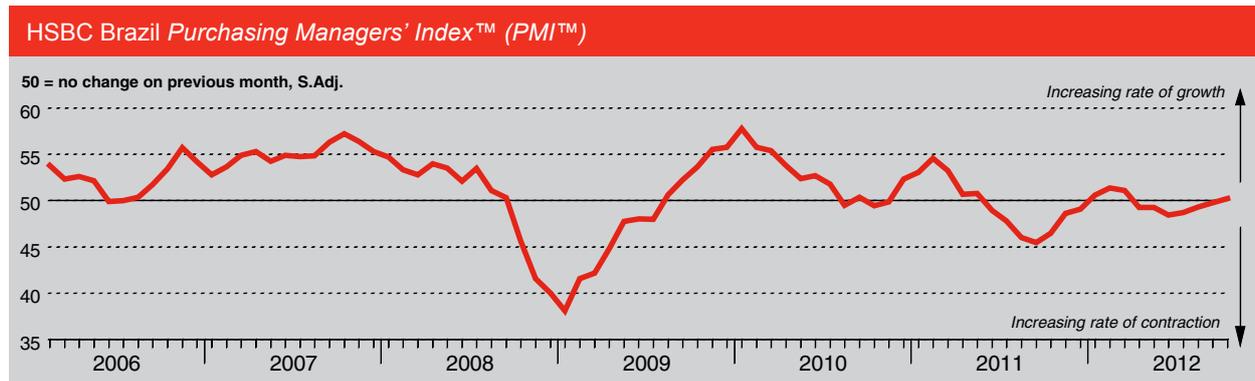
Output in the Brazilian manufacturing sector expanded in October. Although slight, the rate of increase was at a seven-month high. Order book volumes also increased, but only at a marginal rate. Anecdotal evidence suggested that stronger demand led to higher sales volumes. However, new export orders fell again, marking a 19-month sequence of contraction. According to panel members, the European economic crisis negatively affected their export business.

Input price inflation at manufacturing firms in Brazil was recorded in October, amid reports of unfavourable exchange rate conditions and higher petrochemical prices. Some firms also linked rising purchase costs to general inflation and droughts in the US. The rate of input cost inflation was solid, but the slowest in three months. Consequently, charges rose for a further month. That said, the rate of increase was modest and at its weakest since July.

Workforces in the Brazilian goods-producing sector fell for the seventh consecutive month, as firms attempted to reduce staffing costs. However, the pace of job losses was only slight.

Pre-production inventories at manufacturing firms in Brazil fell for the seventeenth consecutive month. Exactly 7% of respondents signalled a depletion in their stocks of purchases, citing intentional reduction to support production requirements and attempts to reduce the costs of inventory management. Post-production inventories also fell, but at a fractional rate. Stocks of finished goods have decreased throughout the past 14 months.

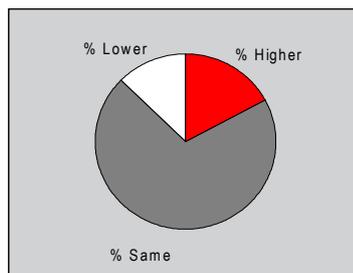
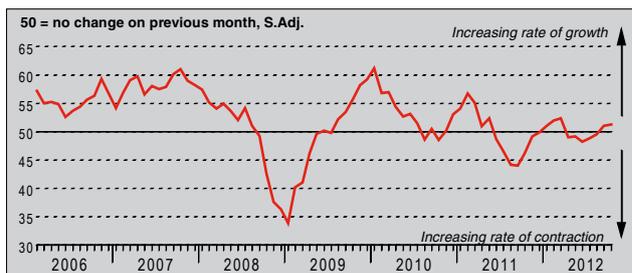
Meanwhile, purchasing activity contracted slightly in the latest month amid reports of intentions to reduce costs. Suppliers' delivery times increased, marking a ten-month sequence of lengthening. Poor highway conditions and delays in the delivery of imported goods were mentioned by panel members as factors affecting 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

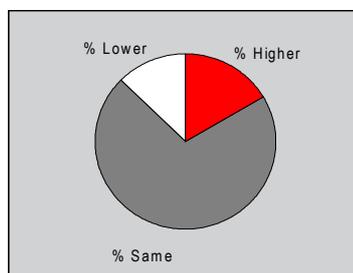
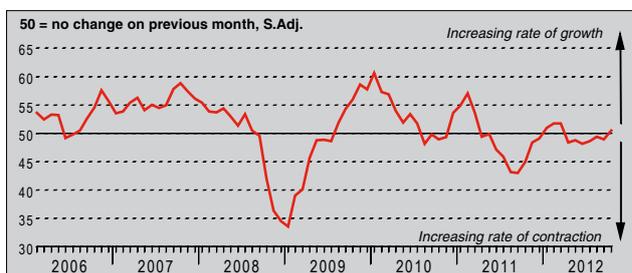
Q. Please compare your production/output this month with the situation one month ago.



Output growth was recorded at manufacturing companies in Brazil during October. Despite posting a seven-month high, the rate of expansion as signalled by the seasonally adjusted Output Index was only slight and below the series' long-run average. Anecdotal evidence suggested that growth of demand was supported by higher sales volumes.

## New Orders Index

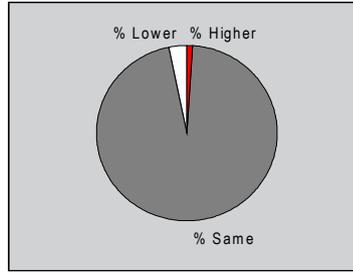
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



Order book volumes in the Brazilian manufacturing sector increased in October for the first time in seven months. The New Orders Index adjusted for seasonal variations posted above the 50.0 no-change mark which separates contraction from expansion. With almost 17% of surveyed firms signalling higher order intakes but 13% noting a fall, the rate of increase was only slight.

## New Export Orders Index

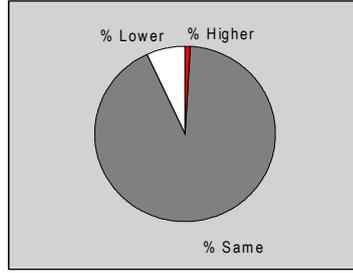
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturing companies in Brazil signalled a further decrease in new export orders during October, amid reports of weak demand from European-based clients in particular. Export sales have fallen in each of the past 19 months. Although moderate, the rate of contraction accelerated to the fastest in 2012 so far. The seasonally adjusted New Export Orders Index posted broadly in line with its long-run trend.

## Backlogs of Work Index

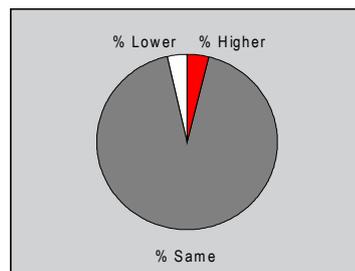
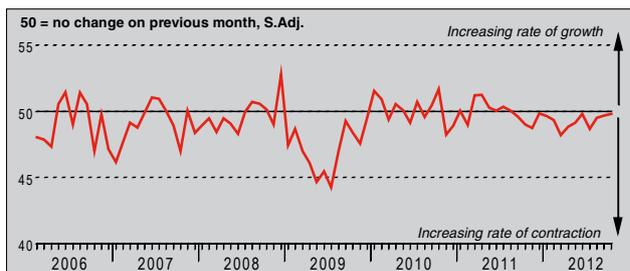
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding orders in the Brazilian manufacturing sector decreased in October, marking a seven-month sequence of depletion. The rate of decrease was solid and slightly faster than that recorded in September. Although almost 7% of panellists indicated lower volumes of work-in-hand (but not yet completed), the vast majority (92%) reported no change from the previous month.

### Stocks of Finished Goods Index

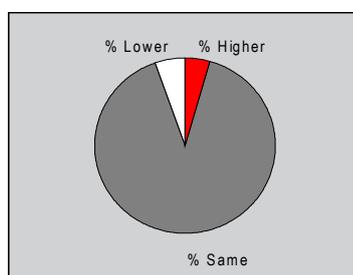
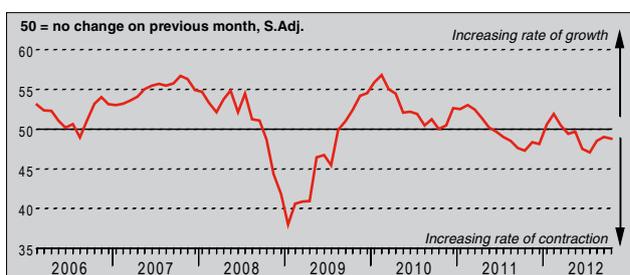
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in the Brazilian goods-producing sector signalled decreasing stocks of finished goods in October. That said, the rate of depletion was only fractional and broadly unchanged from September. Additionally, the Stocks of Finished Goods Index adjusted for seasonal factors posted in line with the series average. Whereas almost 4% of respondents signalled lower post-production inventories, 93% indicated no change.

### Employment Index

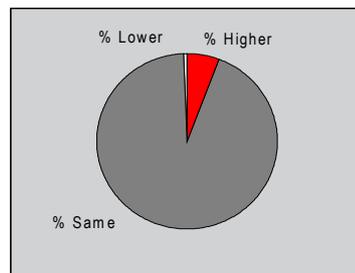
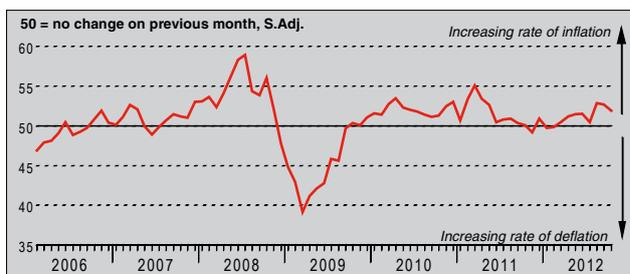
Q. Please compare the level of employment at your unit with the situation one month ago.



Job losses were recorded in the Brazilian manufacturing sector during October for the seventh successive month. The seasonally adjusted Employment Index posted below the no-change mark of 50.0, which separates contraction from expansion. That said, the rate of job losses was only slight. Although approximately 5% of respondents indicated a decrease in their staffing levels, the vast majority (90%) reported no change. Respondents reportedly reduced their workforces in an attempt to cut costs.

### Output Prices Index

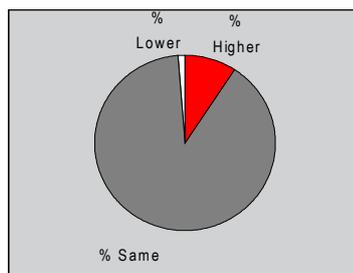
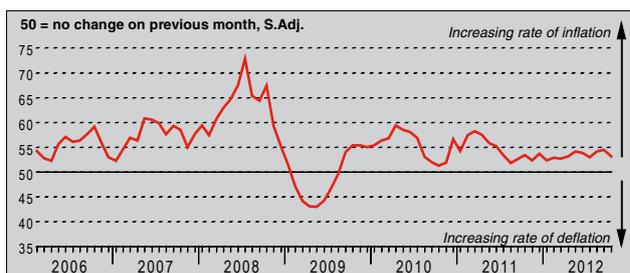
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturing companies in Brazil signalled increasing output prices in October, amid reports of higher raw material costs. Some companies also reported higher pork and poultry prices. Although charges have increased in each of the past eight months, the rate of inflation was at a three-month low. Moreover, factory gate prices in the latest month increased at a moderate pace as almost 94% of respondents signalled no change from September.

### Input Prices Index

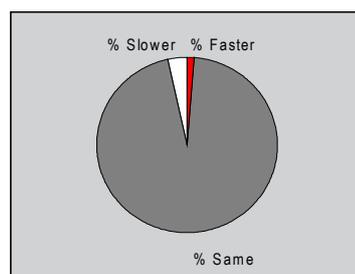
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices in the Brazilian manufacturing sector increased in October, extending the current inflationary period to a 38-month sequence. Although solid, the pace of inflation eased from September's 15-month high. Panel members linked the latest increase to unfavourable exchange rate conditions and higher petrochemical prices. There were also mentions that general inflation and droughts in the US led to higher purchase costs.

## Suppliers' Delivery Times Index

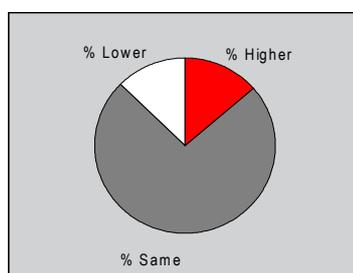
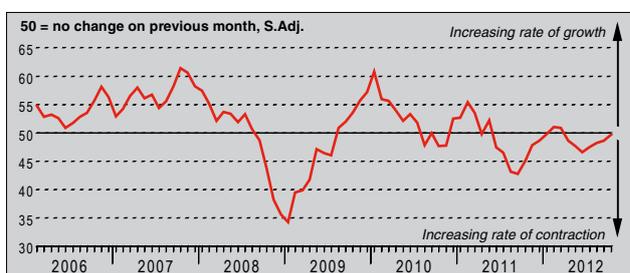
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times in the Brazilian manufacturing sector increased in October for the tenth consecutive month. Although modest, the pace of lengthening was the quickest in six months. Almost 4% of panellists reported slower vendor performance, citing poor highways and delays in the delivery of imported goods. That said, approximately 95% of panel members reported no change in suppliers' delivery times from September.

## Quantity of Purchases Index

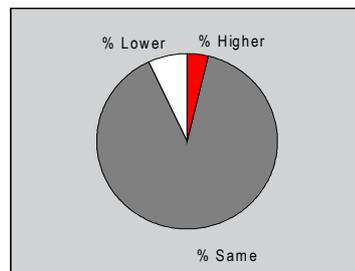
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturing firms in Brazil decreased in October. The seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change mark for the seventh successive month. However, the rate of contraction was only slight and the slowest in this sequence. According to panel members, input buying decreased in line with planned inventory depletion and attempts to keep costs down.

## Stocks of Purchases Index

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



Companies in the Brazilian goods-producing sector signalled a further decline in their stocks of purchases during October, marking a 17-month sequence of depletion. The rate of decrease was moderate, though the fastest since March. Amongst other factors, panel members linked the decline in pre-production inventories to attempts of reducing costs of inventory management. There were also mentions that stocks at some units were used to support output growth.

## 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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