

HSBC Brazil Manufacturing PMI™

Rate of output growth at 23-month high

Key findings:

- New orders increase strongly
- Second successive rise in new export orders
- Employment levels expand for first time in ten months

Brazil's manufacturing sector gained momentum in January, posting strong output growth that was the fastest in 23 months. Order book volumes and export business both continued to expand, with rates of growth strong and slight respectively. Consequently, unfinished business rose, albeit only modestly. Furthermore, firms increased their staffing levels for the first time in ten months.

The HSBC Brazil Purchasing Managers' Index™ (PMI™) is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy, where readings above 50.0 indicate improvement and readings below 50.0 signal deterioration. After adjusting for seasonal factors, the index posted 53.2 during January, up from 51.1 in December. This indicated that the health of the manufacturing sector continued to improve, and at a stronger pace.

Production in the Brazilian goods-producing sector rose during January, marking a five-month sequence of expansion. Output grew robustly and at the fastest rate in 23 months. The volume of incoming new work continued to increase, amid reports of stronger demand. Moreover, the overall pace of expansion was sharp. New export orders also rose, the second successive monthly increase registered. Despite reaching a 36-month high, growth of new export business was only slight.

With strengthening demand and forecasts of further rises, manufacturers increased their input buying in January.

Purchasing activity expanded solidly and at the fastest rate since February 2011.

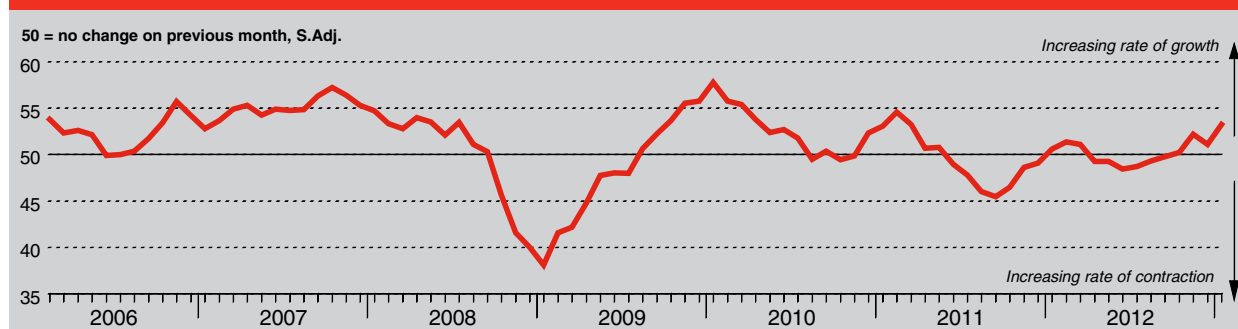
Payroll numbers at manufacturing firms in Brazil increased for the first time in ten months during January. Monitored companies indicated that higher production requirements and expected rises in demand resulted in job creation. However, with only 3% of the survey panel indicating increased workforces and the vast majority (94%) signalling no change, the overall rate of expansion was only slight.

Nevertheless, backlogs of work were accumulated during January. The level of unfinished business rose for the first time in ten months, albeit only slightly.

As has been the case since September 2009, input prices at manufacturing companies in Brazil increased during January. The overall rate of inflation was solid and little-changed from December. According to panellists, steel and raw material costs in general rose. Part of the burden of cost inflation was passed on to clients as average selling prices increased for a further month. That said, the pace of charge inflation was only moderate and eased from the previous month.

Manufacturers signalled falling pre- and post-production inventories during January, with rates of depletion modest. Stocks of purchases fell for the twentieth successive month, whereas the fall in stocks of finished goods was the second consecutive drop recorded.

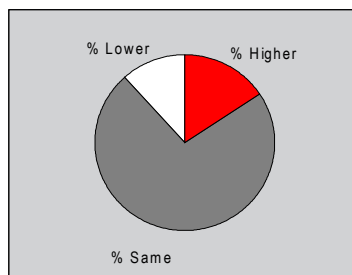
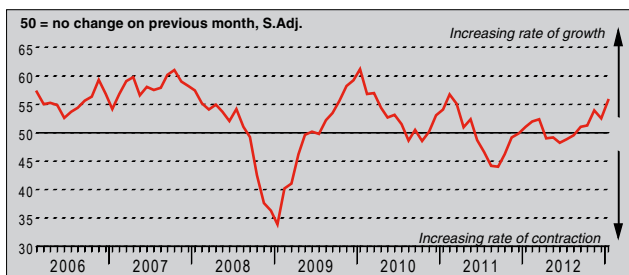
HSBC Brazil Purchasing Managers' Index™ (PMI™)



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

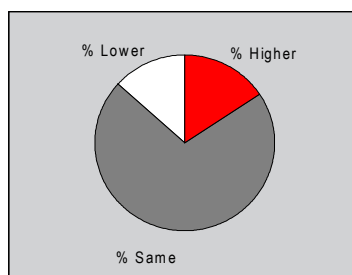
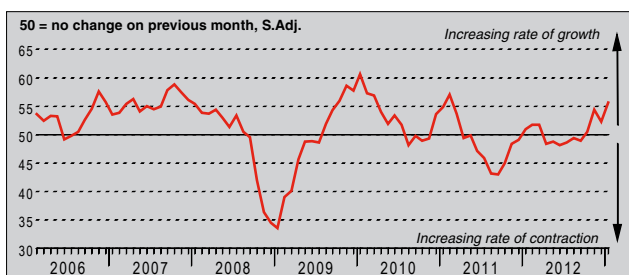
Q. Please compare your production/output this month with the situation one month ago.



Output in the Brazilian manufacturing sector expanded during January, amid reports of increasing order book volumes. The rise in production was sharp and the fastest recorded since February 2011. Almost 16% of monitored companies reported higher output, while 12% noted a fall. Growth has now been sustained for five successive months.

New Orders Index

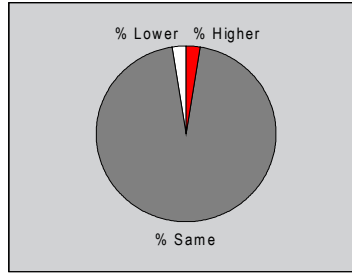
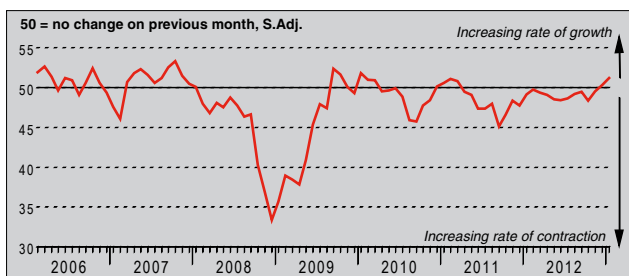
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



January data implied higher volumes of incoming new work at goods-producing firms in Brazil, extending the current period of expansion to four consecutive months. The rate of increase as indicated by the seasonally adjusted New Orders Index was sharp, and the quickest in 23 months. Almost 16% of panellists signalled rising new work intakes, and linked growth to stronger demand.

New Export Orders Index

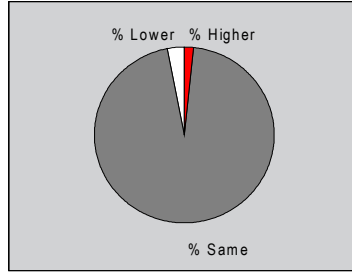
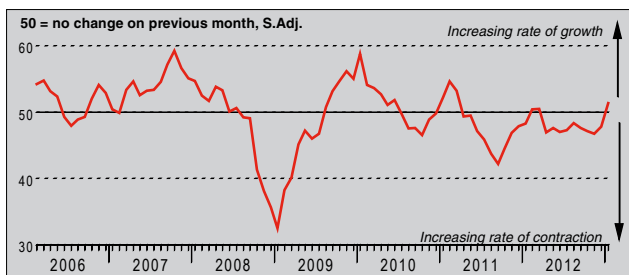
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders at manufacturing companies in Brazil rose during January for the second successive month. Although slight, the pace of growth as indicated by the New Export Orders Index adjusted for seasonal factors accelerated to a 36-month high. Moreover, the index posted above the series' long-run trend.

Backlogs of Work Index

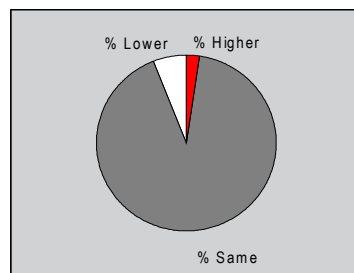
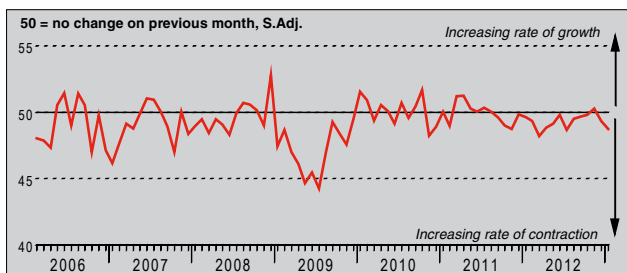
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Ending a nine-month sequence of contraction, backlogs of work in the Brazilian manufacturing sector were accumulated during January. The seasonally adjusted Backlogs of Work Index posted above the no-change mark of 50.0 which separates expansion from contraction, but indicated only a slight rise. Among other factors, panel members mentioned that increased production resulted in higher volumes of work-in-hand (but not yet completed).

Stocks of Finished Goods Index

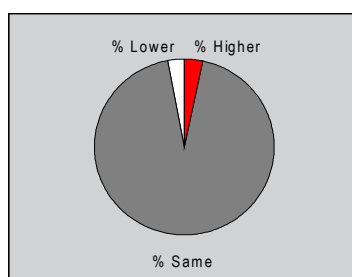
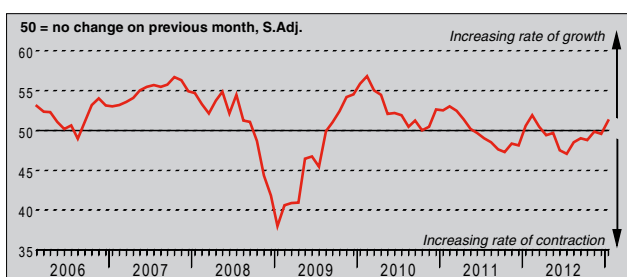
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in Brazil indicated falling post-production inventories during January, the second consecutive monthly decline registered. However, with 6% of the survey panel reporting lower stocks of finished goods and the vast majority (92%) signalling no change, the overall pace of contraction was only slight.

Employment Index

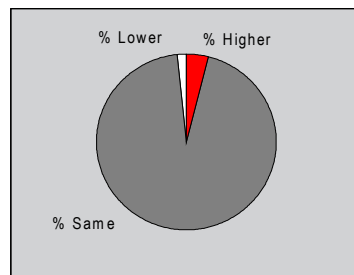
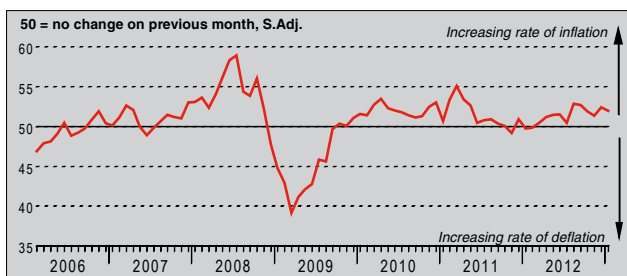
Q. Please compare the level of employment at your unit with the situation one month ago.



After falling for nine consecutive months, staffing levels in the Brazilian manufacturing sector rose during January. That said, the pace of job creation was only slight, as indicated by the Employment Index adjusted for seasonal variations. Anecdotal evidence suggested that payroll numbers were increased in tandem with higher production and anticipated rises in demand.

Output Prices Index

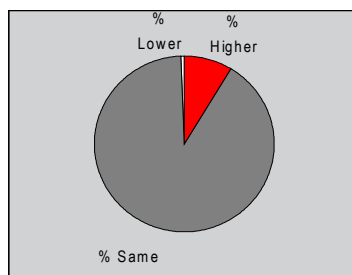
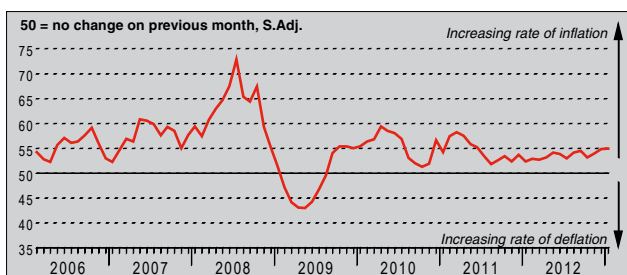
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



As has been the case since March 2012, prices charged by manufacturers in Brazil rose during January. Exactly 4% of panel members indicated higher output prices, while the vast majority (94%) reported no change. Subsequently, the overall rate of inflation was only moderate and eased from December. According to panellists, rising input costs fed through to the latest increase in average selling prices.

Input Prices Index

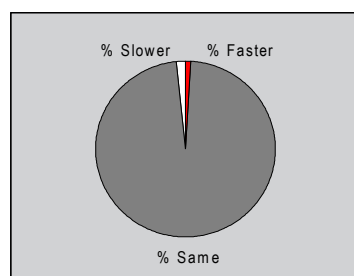
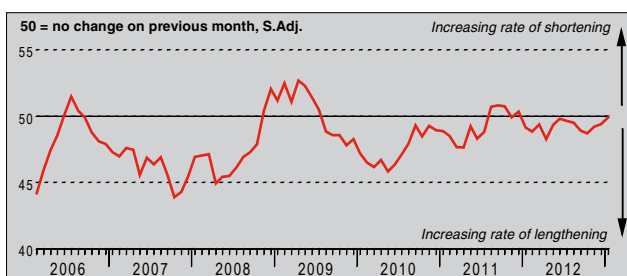
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Continuing the trend that has been observed in each month since September 2009, input prices in the Brazilian goods-producing sector rose during January. Moreover, the pace of inflation was solid and accelerated to the fastest in 19 months. Almost 9% of monitored companies signalled higher input prices, citing higher steel and raw material costs.

Suppliers' Delivery Times Index

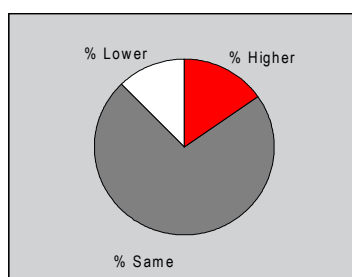
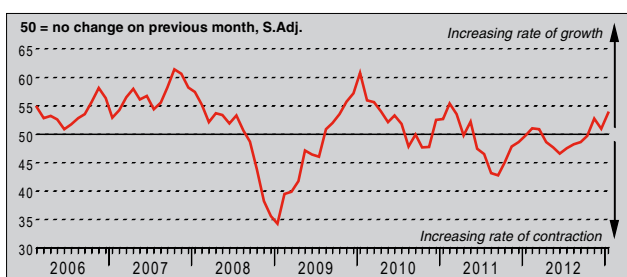
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times in the Brazilian manufacturing sector were broadly unchanged during January. The vast majority of survey respondents (97%) indicated no change in vendor performance from the previous month. Furthermore, the seasonally adjusted Suppliers' Delivery Times Index posted above its long-run trend.

Quantity of Purchases Index

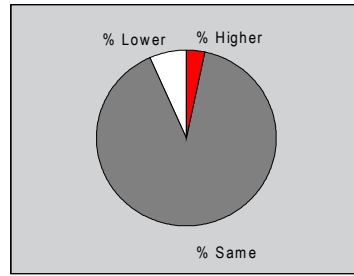
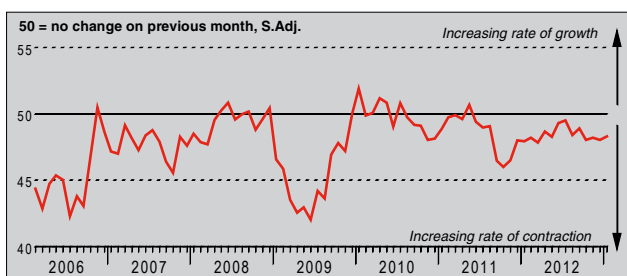
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The quantity of purchases made by manufacturing companies in Brazil rose during January, marking a three-month sequence of expansion. The rate of growth in purchasing activity was solid and the fastest in 23 months. Over 15% of the survey panel reported higher input buying, mentioning increased production requirements and expected rises in demand.

Stocks of Purchases Index

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



Continuing the trend that started in June 2011, pre-production inventories in the Brazilian manufacturing sector fell during January. However, with 7% of panellists signalling lower stocks of purchases and 90% indicating no change, the overall rate of depletion was only modest and broadly unchanged from December. Respondents stated that stronger-than-anticipated demand resulted in lower pre-production inventories.

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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