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# HSBC Brazil Manufacturing PMI™

Upturn in Brazil manufacturing sector continues in February

### Key findings:

- Output and new orders expand further
- Domestic demand remains solid, new export orders post slight gain
- · Manufacturers raise employment for second month running

The Brazil manufacturing sector continued its solid start to 2013. February PMI data signalled further expansions of both production and new orders, with rates of expansion only slightly below January's near two-year highs.

The seasonally adjusted HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) posted 52.5 in February, down only slightly from January's 22-month high of 53.2. The headline PMI has remained above the 50.0 mark − signalling expansion − for five consecutive months. Moreover, the average PMI reading so far in Q1 2013 (52.9) is above that recorded during the final quarter of last year (51.2).

Manufacturing output increased for the sixth successive month in February, as companies stepped up production in response to rising levels of incoming new work. Manufacturers generally cited improved domestic market conditions as the main spur to growth, although some firms also benefited from a modest increase in new export orders.

The level of new export business rose for the third straight month in February, with the rate of growth only marginally less marked than that signalled in the prior month. Companies linked export sales to a slight improvement in global market conditions.

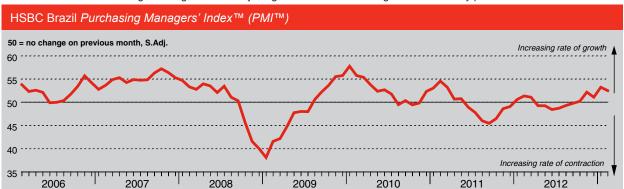
The upturn in the Brazil manufacturing sector filtered through to the labour market, with manufacturers raising employment for the second month running. Although the rate of jobs growth remained only marginal, it was nonetheless only slightly slower than January's 11-month peak. Signs that current demand requirements were testing capacity remained evident, however, as highlighted by a further increase in backlogs of work.

Input price inflation remained on a steady trend path in February, with the rate of increase during the latest survey period broadly similar to those signalled in each month since mid-2011. Companies reported higher prices paid for a range of raw materials, including cardboard, foam, plastic and steel.

Manufacturers reported that part of the increase in input costs had been passed on to clients in the form of higher selling prices for finished products. However, output charge inflation remained below that signalled for purchasing costs.

Rising production requirements led to a further increase in purchasing activity during February. Input buying volumes have risen in each of the past four months, with the latest rate of increase broadly in line with the average for that sequence. Apart from satisfying the needs of increased output, companies linked higher purchasing levels to efforts to reduce the pressure on raw material stocks.

Pre-production inventories fell at a slower pace in February, but nonetheless declined for the twenty-first successive month. In contrast, finished goods stocks rose for the first time in three months during the latest survey period.



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 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.

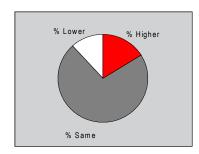




#### **Output Index**

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



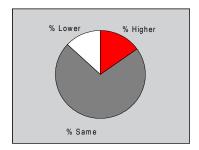


Brazil manufacturing production increased for the sixth successive month in February. Although the rate of expansion was marginally slower than January's near two-year high, it remained marked and above the long-run survey average. Companies attributed the latest increase in output to improved inflows of new business, reflecting solid domestic market conditions and a slight increase in new export orders.

#### **New Orders Index**

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



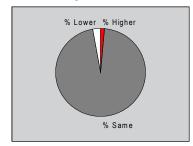


February data signalled an increase in incoming new business for the fifth straight month. Panel reports linked improved inflows of new business to higher sales volumes, especially in the domestic market. The rate of expansion remained solid overall – with 15% of companies reporting an increase – despite easing slightly from January's 23-month peak.

## New Export Orders Index

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



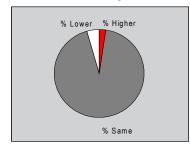


Brazil manufacturers saw a further modest increase in new export orders during February. The latest growth in new export work was the third in successive months, with the rate of increase easing only slightly from that seen in January. Anecdotal evidence indicated that some companies had benefited from improved global market conditions.

# Backlogs of Work Index

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

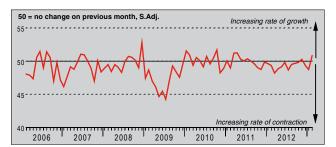


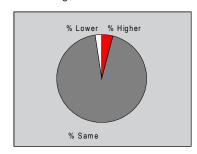


February saw the level of work-in-hand (but not yet completed) at Brazil manufacturers rise for the second month running. The rate of expansion was only moderate and little-changed from that signalled in the previous month. Where an increase in backlogs was reported, this was generally attributed to solid new order growth and (to a much lesser extent) transportation difficulties.

#### Stocks of Finished Goods Index

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



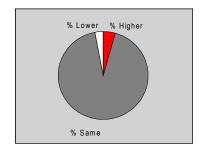


Stocks of finished goods increased for the first time in three months during February. Although the rate of inventory building was only slight, it was nonetheless the sharpest in almost two years. The latest increase in stock holdings mainly reflected solid growth of production and, to a lesser extent, intentional stock building at some manufacturers.

#### **Employment Index**

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



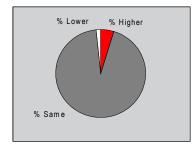


The improved performance of the Brazil manufacturing sector led to further moderate job creation during February. Payroll numbers were raised for the second consecutive month, with the rate of growth only slightly below January's 11-month high. Surveyed companies reported that staffing levels had risen in line with increased production and demand requirements.

## **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.





Average output prices increased for the twelfth successive month in February. Manufacturers indicated that they had adjusted their selling prices in response to increased raw material costs. Although the rate of inflation was above the average for the current sequence of increase, it remained below that signalled for average purchasing costs.

# Input Prices Index

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



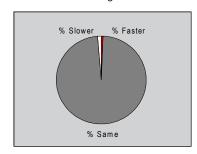


February saw a further increase in average manufacturing input costs, continuing a trend observed throughout the past three-and-a-half years. Companies reported paying higher prices for cardboard, foam, plastic and steel, in part reflecting adjustments implemented by suppliers. The rate of inflation nonetheless remained below the survey average, and has now maintained a broadly steady trend pace since mid-2011.

#### Suppliers' Delivery Times Index

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



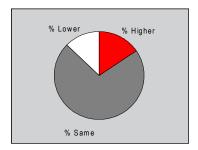


Average supplier delivery times were broadly unchanged during February, with 98% of surveyed companies reporting no change over the month. Where a shortening of lead-times was signalled, this reflected improved supplier performance and available spare capacity. Conversely, manufacturers seeing a lengthening of delivery times attributed this to increased demand for raw materials.

#### Quantity of Purchases Index

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



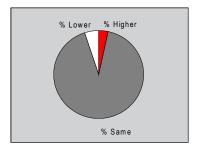


Rising production requirements led to increased levels of input purchasing among Brazil manufacturers in February, with almost 16% of the survey panel reporting an increase in input buying volumes during the latest survey period. Purchasing activity has now risen for four successive months, with the latest increase broadly in line with the average for that period. Part of the rise reflected efforts to reduce pressure on input stocks.

## Stocks of Purchases Index

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





Brazil manufacturers reduced their holdings of raw materials and semi-manufactured goods for the twenty-first straight month in February. However, the rate of depletion remained only moderate and was slightly less marked than in the prior month. Companies generally linked lower stocks to increased production requirements. There were also some reports of intentional inventory depletion.

### 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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