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# HSBC Brazil Manufacturing PMI™

PMI signals modest improvement in manufacturing operating conditions

# Key findings:

- Output expands for seventh month running, but growth eases
- Total new orders increase moderately, export sales slightly
- Input and output price inflation accelerate

Operating conditions in the Brazilian manufacturing sector continued to improve during March. Production expanded for a further month, reflecting higher volumes of incoming new work from both domestic and international clients. That said, with growth in new orders and output easing, the latest PMI reading fell to the lowest in three months. Meanwhile, inflationary pressures persisted with input costs rising at the fastest rate in 22 months.

The HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) is a composite indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases. Readings above 50.0 indicate expansion and below that threshold, contraction. After adjusting for seasonal factors, the index posted 51.8 in March, down from 52.5 in February, indicating that the manufacturing sector continued to expand, albeit at a slower pace. Nevertheless, the average for the first quarter of the year (52.5) was higher than that recorded for the last quarter of 2012 (51.2).

Reflective of strong domestic and international demand, total new orders rose for the sixth consecutive month during March. Nonetheless, the overall rate of growth was only moderate and eased to a three-month low. New exports business expanded slightly and at a broadly similar pace to that seen in February. Concurrently, output increased only moderately, with the rate of

growth easing to the slowest since October 2012.

In tandem with higher production requirements, manufacturers in Brazil hired additional staff during March. The rate of job creation was only modest, but accelerated to the fastest since February 2012. Increased payroll numbers helped to ease the pressure on operating capacity and outstanding business fell for the first time in three months, albeit only slightly.

Purchasing activity in the Brazilian goods-producing sector rose during March, extending the current sequence of growth to five months. That said, the latest increase in input buying was only slight and the slowest in that sequence. Suppliers' delivery times lengthened for the fifteenth consecutive month, amid evidence of poor highway conditions, raw material shortages and delayed payments to suppliers.

While stocks of finished goods rose fractionally from February, pre-production inventories were depleted during March, though only slightly.

Inflationary pressures in the Brazilian manufacturing sector persisted during March, with the rates of input and output price inflation both accelerating. Purchase costs rose at the fastest rate since May 2011, with panel members reporting that a number of raw materials had increased in price. Average selling prices rose for the thirteenth consecutive month, with the overall rate of inflation solid and the quickest recorded in two years.



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.

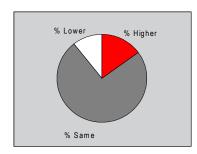




#### **Output Index**

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



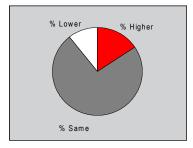


Output in the Brazilian manufacturing sector increased during March, extending the current sequence of growth to seven months. That said, the overall rate of expansion was only moderate and the seasonally adjusted Output Index was at a five-month low. Exactly 15% of panellists reported higher production, citing increased levels of incoming new business.

# **New Orders Index**

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



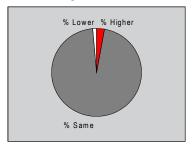


Companies operating in the Brazilian manufacturing sector signalled rising volumes of incoming new work during March. The pace of expansion was, however, only moderate and the slowest in the first quarter of the year. Anecdotal evidence suggested that demand from both Brazilian and foreign clients had strengthened over the month. Growth in new orders has now been sustained for six consecutive months.

# New Export Orders Index

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





Total export business at manufacturing companies in Brazil rose during March, as been the case since December last year. Almost 3% of surveyed companies indicated higher levels of foreign business, while 96% reported no change from February. Consequently, the overall rate of expansion was only slight. Some respondents linked the rise in new export orders to stronger demand from Asian markets, with particular mention of China.

# Backlogs of Work Index

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



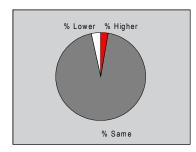


Despite higher inflows of new business, backlogs of work at manufacturing firms in Brazil decreased during March. The latest fall was the first registered in three months, but was only slight. Those panel members reporting lower volumes of work-in-hand (but not yet completed) indicated that additional hiring had eased the pressure on operating capacity.

# Stocks of Finished Goods Index

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



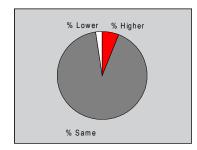


Post-production inventories at manufacturing companies in Brazil were broadly unchanged during March, following a slight accumulation registered in February. The seasonally adjusted Stocks of Finished Goods Index posted only fractionally above the no-change mark of 50.0 and was slightly above the long-run series average (49.2).

#### **Employment Index**

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



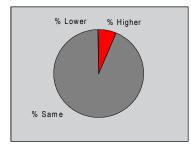


March data signalled further job creation in the Brazilian manufacturing sector, the third in successive months. Despite indicating only a modest expansion, the Employment Index adjusted for seasonal variations rose to the highest reading since February 2012 and was above the series average. Panel members indicated that payroll numbers were increased in line with production growth.

# **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.



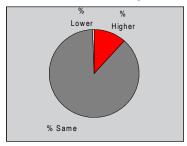


Average selling prices in the Brazilian manufacturing sector rose during March, amid evidence of higher input costs. The rate of charge inflation was solid and the quickest in two years. The seasonally adjusted Output Prices Index posted above the 50.0 threshold for the thirteenth successive month and was above the long-run series average.

# Input Prices Index

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

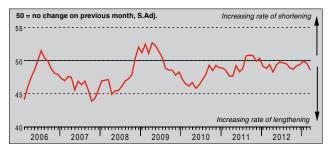


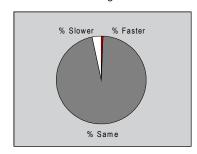


Firms operating in the Brazilian goods-producing sector signalled higher prices paid for inputs during March. The overall rate of cost inflation remained strong, and accelerated to the fastest since May 2011. Almost 12% of survey participants reported higher purchasing costs, and mentioned that raw materials in general had increased in price.

# Suppliers' Delivery Times Index

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



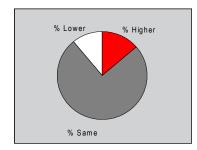


As has been the case since January 2012, suppliers' delivery times in the Brazilian manufacturing sector lengthened during March. Vendor performance deteriorated at only a modest rate, albeit the sharpest in five months. According to panellists, shortages of raw materials, poor highway conditions and delayed payment from firms to suppliers all fed through to the latest worsening in supplier performance.

### Quantity of Purchases Index

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

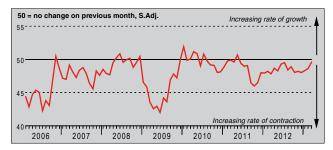


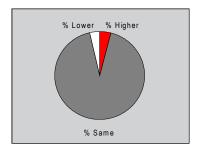


Reflective of rising inflows of new work, manufacturing companies in Brazil continued to increase their input buying. However, with almost 14% of respondents signalling a higher quantity of items purchased and 11% noting a decline, the overall rate of expansion was only slight and the slowest in the current five-month sequence of growth.

# 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, holdings of raw materials and semi-manufactured goods in the Brazilian manufacturing sector fell during March. That said, the rate of stock depletion was only slight and the slowest in the current sequence. Moreover, the seasonally adjusted Stocks of Purchases Index posted above the series' long-run average.

# 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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