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# HSBC Brazil Manufacturing PMI™

PMI falls for fourth successive month, but remains in positive territory

#### **Key findings:**

- · Output expands at moderate pace
- Slight rise in total new orders, but export business stagnates
- Rate of job shedding accelerates

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 PMI posted 50.4 in May, down from 50.8 in April. The latest reading indicated a further improvement in manufacturing operating conditions across the country. Nonetheless, the index decreased for the fourth month running and was at a seven-month low.

Output expanded moderately during May and at the slowest pace since October 2012. Approximately 16% of panellists reported higher production, citing new order growth. In contrast, 11% noted a decline. Incoming new work increased for the eighth consecutive month, however, the overall rate of expansion was only slight and the slowest since last October. Survey participants commented that demand remained firm, but some companies reported increased competition for new contracts.

Following a decline seen in April, new export orders in the Brazilian goods-producing sector stagnated during May. Anecdotal evidence pointed to muted demand from European clients.

Spare capacity was signalled by manufacturing companies in Brazil, as backlogs of work decreased for the third consecutive month in May. Outstanding business levels fell moderately, but the rate of depletion accelerated to quickest since last November.

Concurrently, payroll numbers were cut again in May. The rate of job shedding was only slight, but the sharpest in nine months. Monitored companies mentioned that the latest reduction in employment levels reflected attempts to reduce costs.

The quantity of items purchased for use in production by Brazilian manufacturers increased during May, taking the current expansionary sequence to seven months. Around 12% of the survey panel signalled higher input buying, citing increased order book volumes.

Pre- and post-production inventories both fell during May. Stocks of purchases were depleted for the twenty-fourth successive month, albeit only slightly. Anecdotal evidence suggested that inputs were drawn down to fulfil higher production levels. Similarly, holdings of finished goods fell slightly, with the rate of contraction little-changed from April.

For the forty-fifth consecutive month, input costs in the Brazilian manufacturing sector rose in May. The rate of cost inflation was solid, but eased to a seven-month low. Monitored companies indicated higher prices paid for raw materials, with particular mentions of steel and plastic. Additional cost burdens were passed on to clients, as indicated by a further increase in selling prices. The rate of charge inflation picked up from April. Investment good producers signalled the strongest rise in charges, followed by the intermediate and consumer goods sectors respectively.



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.

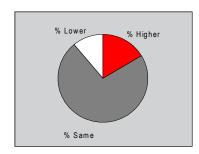




#### **Output Index**

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



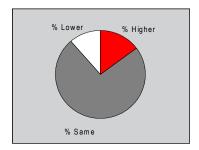


Further output growth was signalled by Brazilian manufacturers during May. The rate of expansion, however, remained moderate and eased for the fourth month running. Around 16% of survey participants signalled higher production, whereas 11% noted a fall. Anecdotal evidence suggested that new work intakes had increased over the month.

#### **New Orders Index**

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

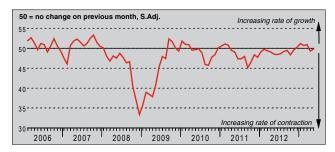


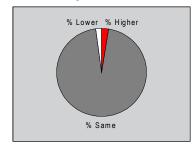


May data pointed to increased levels of new orders placed at Brazilian manufacturers, marking an eight-month sequence of expansion. That said, the rate of growth was only slight and the slowest since last October. Almost 15% of monitored companies reported higher order book volumes, citing new contract wins. Those panellists signalling lower work intakes commented on increased competition.

# New Export Orders Index

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



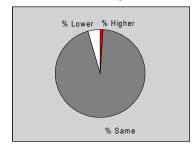


New export orders in the Brazilian goods-producing sector stagnated during May. This was indicated by the seasonally adjusted New Export Orders Index posting close to the no-change level of 50.0. Panel members that reported higher export orders indicated that demand growth in key markets was maintained. Conversely, respondents signalling lower foreign business often commented on weak demand from European clients.

# Backlogs of Work Index

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

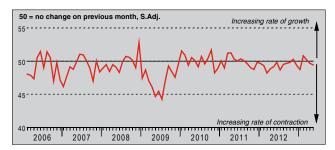


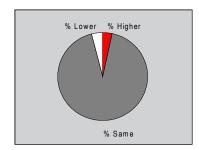


Evidence of spare capacity remained, as backlogs of work fell for the third successive month in May. The overall rate of depletion was moderate, but the quickest since November 2012. Almost 5% of survey respondents signalled lower volumes of work-in-hand (but not yet competed) and the vast majority (95%) indicated no change from one month previously.

#### Stocks of Finished Goods Index

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



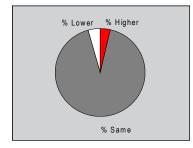


Companies operating in the Brazilian manufacturing sector signalled lower holdings of finished goods for the second consecutive month in May. The overall rate of stock depletion was, however, only slight and little-changed from April. A modest decline was registered at consumer goods producers, while broadly no-change was reported in the intermediate goods sector. A slight accumulation was signalled by investment goods producers.

#### **Employment Index**

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



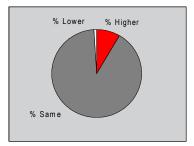


Brazilian manufacturers indicated further job cuts during May. The pace of contraction was slight, but the fastest since last August. Whereas 4% of monitored companies signalled lower employment levels, the vast majority (92%) reported no change. Cost reduction was widely mentioned by panel members as a reason for job shedding.

# **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.



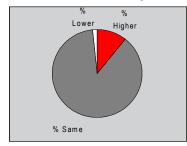


Manufacturers operating in Brazil raised their tariffs during May, extending the current inflationary sequence to 15 months. Moreover, the rate of increase was solid and sharper than that seen in April. Panellists indicated that additional cost burdens were passed on to clients. The quickest rise in charges was registered at investment goods producers, followed by the intermediate and consumer goods sectors respectively.

# Input Prices Index

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



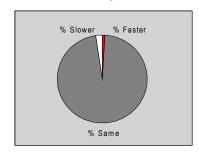


Brazilian manufacturers indicated that prices paid for inputs rose during May. Despite being solid, the rate of inflation eased to a seven-month low. Furthermore, the Input Prices Index adjusted for seasonal variations was below the long-run series average. Companies reported higher prices paid for raw materials, with particular mentions of steel and plastic. Cost inflation has now been recorded for 45 consecutive months.

# Suppliers' Delivery Times Index

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

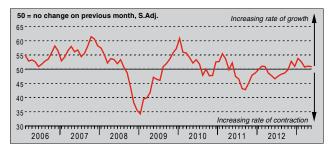


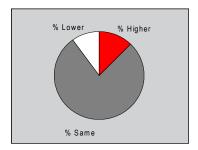


Average lead times lengthened for the seventeenth consecutive month in May, amid reports of raw material shortages. However, with 2% of respondents reporting a deterioration in vendor performance and the vast majority (97%) signalling no change, the overall pace of lengthening was only slight and broadly unchanged from April.

#### Quantity of Purchases Index

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

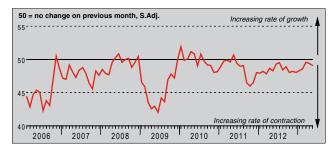


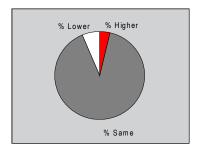


For the seventh successive month, manufacturers in Brazil increased their input buying in May. The rate of expansion was, however, only marginal and eased from April. Around 12% of survey participants indicated a higher quantity of items bought and linked the rise to new order growth. Conversely, 10% of respondents signalled a lower quantity of purchases at their units.

# Stocks of Purchases Index

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





Pre-production inventories in the Brazilian manufacturing sector fell for the twenty-fourth month running in May. That said, the pace of stock depletion was only slight. Approximately 6% of firms reported lower holdings of raw materials and semi-manufactured goods, with a number of panellists indicating that inputs were drawn down for use in production.

#### 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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