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HSBC Brazil Manufacturing PMI™

September data highlights renewed growth of manufacturing output in Brazil

Key findings:

- Production increases for first time in three months
- New orders and export business contract at marginal and slower rates
- · Input price inflation strongest in almost five years

Following a two-month sequence of contraction, manufacturing production across Brazil rose in September. New orders and export business both fell at slower rates, leading firms to increase their buying activity. Input and output price inflation accelerated, with the former reaching a 59-month peak.

The headline HSBC Brazil *Purchasing Managers' Index™* (*PMI™*) – a seasonally adjusted index derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – increased from 49.4 in August to 49.9 in September. The latest reading indicated that operating conditions across the country's manufacturing economy were broadly unchanged. However, the PMI average for the third quarter of the year was the lowest since Q3 2012.

Output rose for the first time in three months, as manufacturers worked through their backlogs during September. The rate of expansion was, however, only slight. Sector data highlighted production growth across two of the three monitored categories, namely consumer and investment goods.

New orders contracted at a marginal and slower pace in September. Whereas new work received by investment goods companies fell solidly, rises were recorded at both intermediate and consumer goods firms. Survey participants reporting lower volumes of incoming new work largely commented on economic instability, deteriorating client confidence and increased external

competition.

Concurrently, new orders from abroad fell for the sixth successive month in September. The decline in export business was, however, slightly slower than that seen in August. Although manufacturers highlighted increased enquiries from Europe and Argentina, higher import costs had limited firms' ability to competitively price.

Reflective of lower new business levels, Brazilian manufacturers reduced their workforce numbers further. That said, the rate of job cuts in September was only slight and the weakest since April. Lower payroll numbers were signalled by investment and intermediate goods producers, while jobs growth was recorded in the consumer goods sector.

September data pointed to a sharp and accelerated rate of input cost inflation in the Brazilian manufacturing economy, with the index measuring purchase prices climbing to its highest mark in almost five years. Panellists indicated that a depreciation of the Brazilian real against the US dollar had resulted in higher import costs. Consequently, firms raised their selling prices further and all three sectors covered by the survey registered stronger rates of charge inflation.

Meanwhile, purchasing activity rose for the first time in three months during September, amid reports of restocking attempts. Raw material shortages at vendors, however, led to longer delivery times and pre-production stocks contracted (albeit marginally).



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.

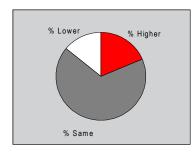




Output Index

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



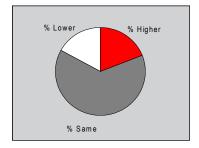


Brazilian manufacturers signalled output growth for the first time in three months during September. The overall rate of expansion was, however, only slight. Increases recorded at consumer and investment goods producers offset a decline noted in the intermediate goods sector. Almost 19% of survey participants indicated higher output and widely commented on the work through of unfinished business.

New Orders Index

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



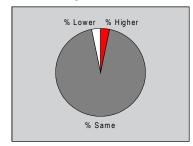


September data highlighted a third consecutive monthly contraction of new orders placed at Brazilian manufacturers. That said, the seasonally adjusted New Orders Index rose to its highest mark in that sequence, indicating a marginal decline overall. Sector data pointed to a solid fall of new work received by capital goods firms, while growth was recorded in the intermediate and consumer goods sectors. Panellists reporting lower levels of new orders commented on economic instability, deteriorating client confidence and increased external competition.

New Export Orders Index

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



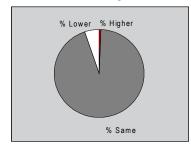


The seasonally adjusted New Export Orders Index posted below the neutral 50.0 threshold for the sixth month running in September. However, the latest contraction in foreign orders was only slight and broadly unchanged from that seen in August. Although manufacturers highlighted increased enquiries from Europe and Argentina, limited ability to hold prices down (linked to higher import costs) was mentioned as a competitive disadvantage in securing contracts.

Backlogs of Work Index

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



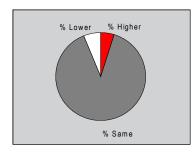


Faced with fewer new orders, Brazilian manufacturers worked through their backlogs during the latest month. Unfinished work fell for the seventh successive month, with the pace of depletion in September being the fastest in almost two years. Furthermore, the seasonally adjusted Backlogs of Work Index posted well below the long-run series average.

Stocks of Finished Goods Index

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



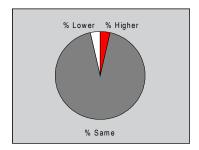


Post-production inventories in the Brazilian manufacturing sector fell for the sixth month running in September. The pace of contraction, as indicated by the seasonally adjusted Stocks of Finished Goods Index, was slight and little-changed from August. Firms commented on cost-cutting attempts and also mentioned that holdings of manufactured goods were directly used to meet existing orders.

Employment Index

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





September data pointed to a further reduction of manufacturing employment across Brazil. The seasonally adjusted Employment Index was, however, consistent with a slight contraction and one that was the slowest since April. Workforce reduction in the investment and intermediate goods sectors counterbalanced job creation recorded at consumer goods producers. Anecdotal evidence suggested that payroll numbers fell in line with lower levels of incoming new work.

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.



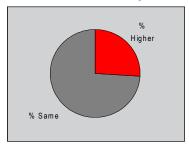


Amid reports of higher costs, companies operating in the Brazilian manufacturing sector raised their selling prices further in September. The overall rate of charge inflation was sharp and quicker than that seen in August. All three sub-categories covered by the survey registered stronger rates of charge inflation, with the fastest rise noted at capital goods producers.

Input Prices Index

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



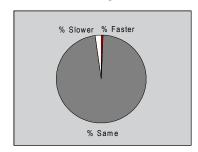


Input costs in the Brazilian manufacturing sector rose at a sharp and accelerated pace in September, amid evidence of a weaker currency. Whereas 26% of the survey panel reported higher purchase prices, the remaining companies (74%) reported no change. Subsequently, the Input Prices Index adjusted for seasonal influences climbed to its highest mark in almost five years.

Suppliers' Delivery Times Index

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



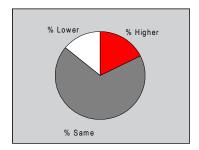


Average lead times lengthened further in September, marking a 21-month sequence of worsening vendor performance. However, with the vast majority of Brazilian manufacturers (97%) indicating no change in supplier delivery times, the pace of lengthening was only marginal. Panellists highlighted poor road conditions and delays in the delivery of imported raw materials.

Quantity of Purchases Index

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



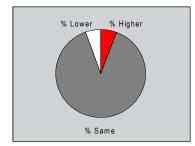


Led by consumer goods producers, purchasing activity in the Brazilian manufacturing sector rose for the first time in three months during September. The growth rate was, however, only slight and the seasonally adjusted Quantity of Purchases Index posted below the series average. Those companies indicating increased input buying reasoned that this reflected attempts to expand inventories for future production.

Stocks of Purchases Index

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





Holdings of raw materials and semi-manufactured goods in the Brazilian manufacturing economy fell in September, marking a 28-month sequence of depletion. That said, the overall rate of contraction was only marginal and the slowest in that sequence. Where a decline in pre-production stocks was noted, this was attributed to delays in the delivery of raw materials. Some companies reported attempts to reduce the costs of inventory management.

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 $^{-1}$ (PMI $^{-1}$) 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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