

# HSBC Brazil Manufacturing PMI™

PMI posts above 50.0 threshold for first time in four months during October

**Key findings:**

- At 50.2, PMI signals fractional improvement of manufacturing sector business conditions
- Output growth strongest in five months
- New orders stabilise, but decline in export business accelerates

Operating conditions across Brazil's manufacturing economy improved in October, albeit fractionally. Despite stagnant new orders and a faster decline in export business, output rose at the quickest pace since May.

Up from 49.9 in September to 50.2 in the latest month, the seasonally adjusted HSBC Brazil *Purchasing Managers' Index™ (PMI™)* – an index derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – posted above the crucial 50.0 threshold for the first time in four months. Nonetheless, October's reading was consistent with only a fractional improvement in operating conditions.

Manufacturers raised their production levels, amid expectations of better economic conditions and forecasts of stronger client demand. Production growth was moderate, but the quickest since May. All three monitored sub-sectors recorded higher output, with the fastest rise noted at consumer goods firms.

Following three successive months of contraction, incoming new work stabilised in October. Sector data indicated that new order growth at consumer and intermediate goods producers offset a decline noted in the capital goods category. Export orders, however, fell at the fastest pace since July. Anecdotal evidence pointed to lower demand from clients in Europe and the US. The downturn in foreign business during October was broad-based, with all three sub-sectors covered by the survey posting declines.

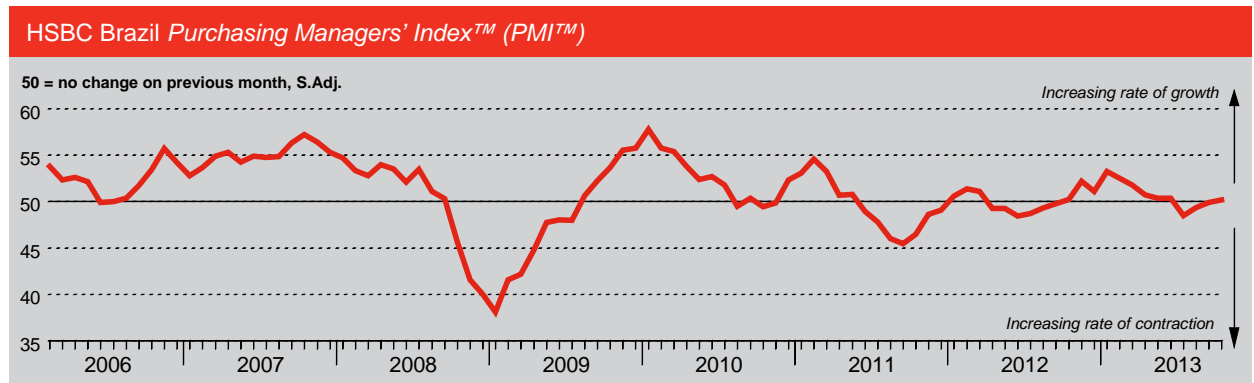
Subsequently, workforce numbers were reduced in October, stretching the current sequence of job shedding to seven months. The rate of reduction was, however, only slight as the majority of respondents (92%) indicated no change in their staffing levels since last month.

Reflecting the lack of new projects, Brazilian manufacturers worked through their backlogs in October. Unfinished business levels fell for the eighth month running, with the rate of contraction remaining solid.

Average purchase prices rose further in October, and the rate of cost inflation reached a five-year high. Survey participants indicated that the weaker Real had resulted in higher prices paid for imported raw materials (in particular from the US). The sharpest rise was noted at capital goods firms.

Concurrently, average selling prices were raised again in October. The overall rate of charge inflation accelerated to the joint-strongest in the survey history (equal to July 2008). The fastest increases were registered at investment and intermediate goods producers.

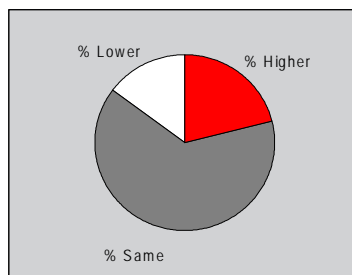
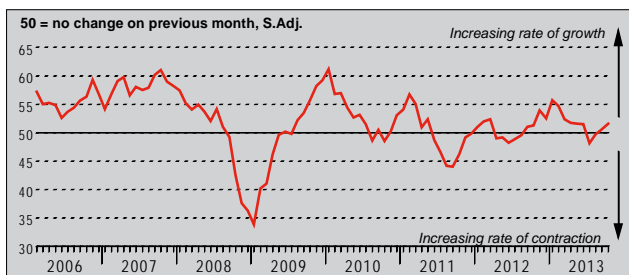
Stock levels in the Brazilian manufacturing economy fell in October, as companies attempted to reduce the costs of inventory management. Whereas the decline in post-production stocks eased to a marginal pace, holdings of raw materials and semi-manufactured goods contracted at a faster rate than that seen in September.



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

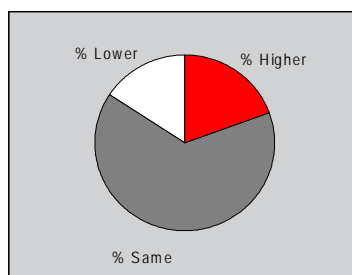
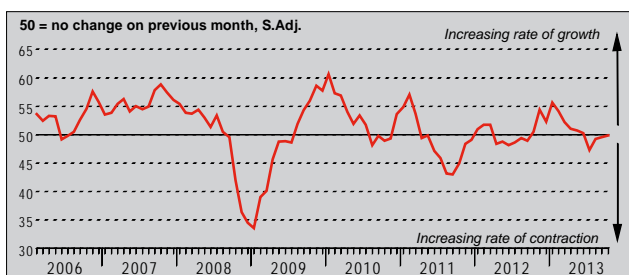
Q. Please compare your production/output this month with the situation one month ago.



Output growth across the Brazilian manufacturing sector accelerated in October to the fastest pace since May. That said, the seasonally adjusted Output Index was consistent with a moderate rate of expansion and one that was weaker than the series average. Survey participants indicating higher production generally commented on forecasts of stronger demand in the coming months. All three sub-sectors monitored by the survey recorded output growth, led by consumer goods producers.

### New Orders Index

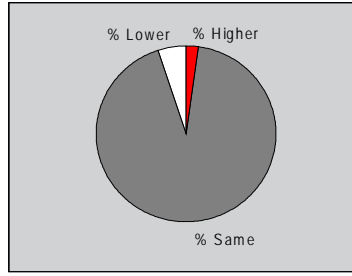
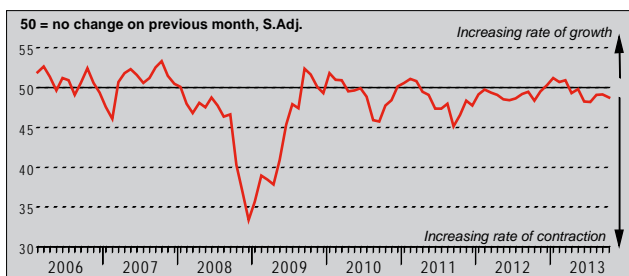
Q. Please compare the level of new orders received (Brazil and export) this month with the situation one month ago.



New business placed at Brazilian manufacturing firms was broadly unchanged in October. This was indicated by the seasonally adjusted New Orders Index posting only fractionally below the crucial 50.0 no-change level. Whereas incoming new work rose at both consumer and intermediate goods producers, a sharp decline was recorded in the investment goods sector.

### New Export Orders Index

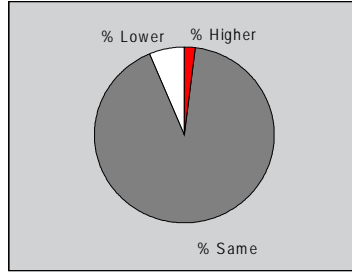
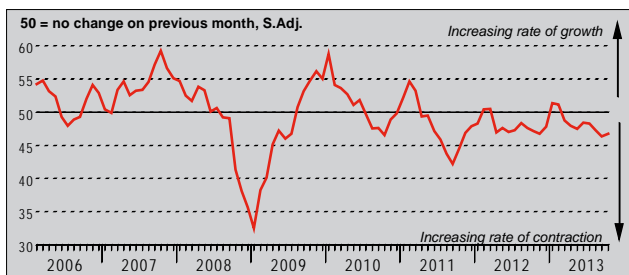
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Brazilian manufacturers indicated that new business from abroad fell again in October. Despite being slight, the rate of decline was the quickest since July. Anecdotal evidence suggested that demand from Europe and the US was weaker in the latest month. October's downturn in foreign orders was broad-based, with all three monitored categories posting declines.

### Backlogs of Work Index

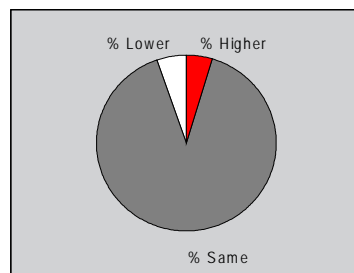
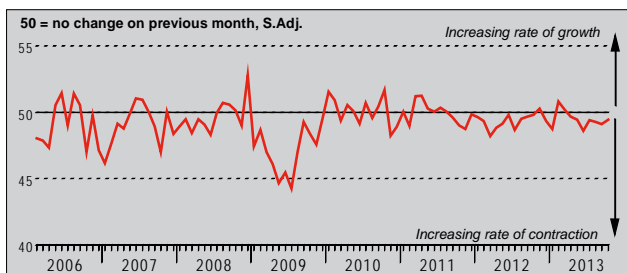
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



October data highlighted an eighth consecutive monthly decline in unfinished business levels across the Brazilian manufacturing sector. Despite being solid, the overall rate of backlog depletion eased slightly since September. Companies generally commented that a lack of new projects was the main reason behind the latest fall in outstanding business.

### Stocks of Finished Goods Index

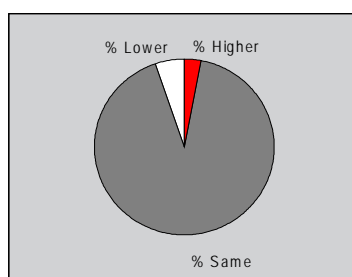
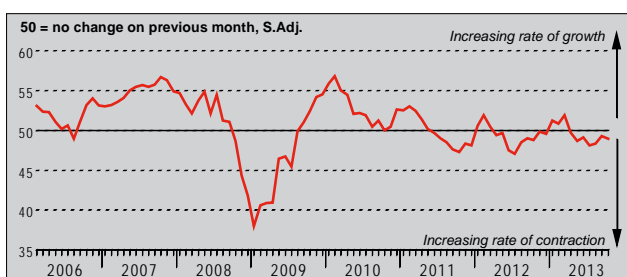
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of manufactured goods across Brazil fell in October, marking a seven-month sequence of stock depletion. However, with the vast majority of respondents (90%) reporting no change in their pre-production inventories since September, the overall pace of decline was only marginal and the slowest since May. According to panellists, stocks of finished goods were reduced in attempts to cut the costs of inventory management.

### Employment Index

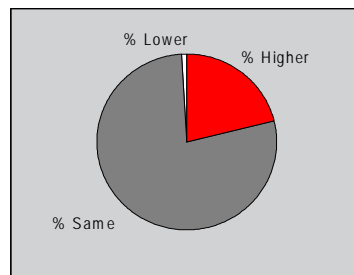
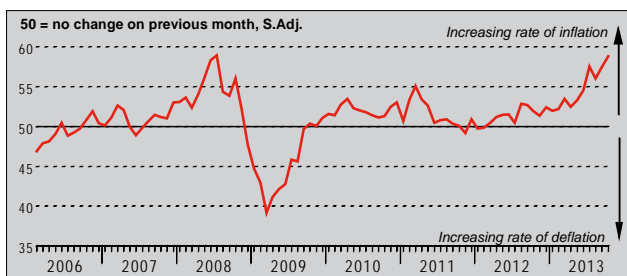
Q. Please compare the level of employment at your unit with the situation one month ago.



Brazilian manufacturers signalled lower payroll numbers in October, extending the current sequence of job shedding to seven months. Moreover, the overall rate of decline accelerated slightly from that seen in September. Recent declines in new work was often commented on by companies that reported job cuts. Workforce numbers fell moderately across all three sub-sectors covered by the survey.

### Output Prices Index

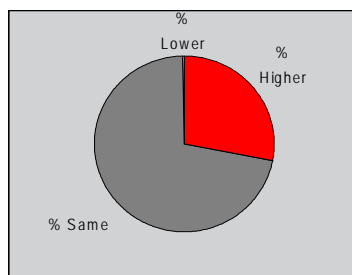
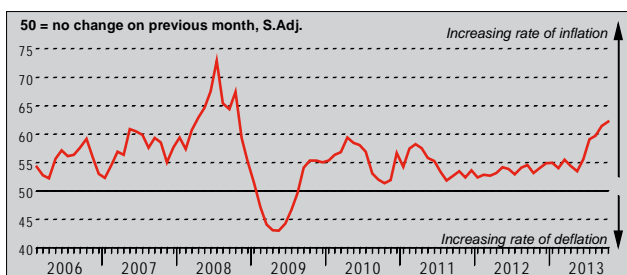
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Brazilian manufacturers were raised for a further month in October. Moreover, the seasonally adjusted Output Prices Index climbed to its joint-highest reading in the survey history (matching July 2008). Firms reporting higher average selling prices cited increased cost burdens. The strongest rate of charge inflation was recorded in the intermediate goods sector, followed by investment and consumer goods firms respectively.

### Input Prices Index

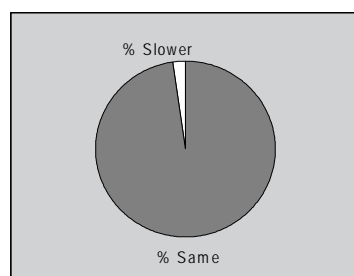
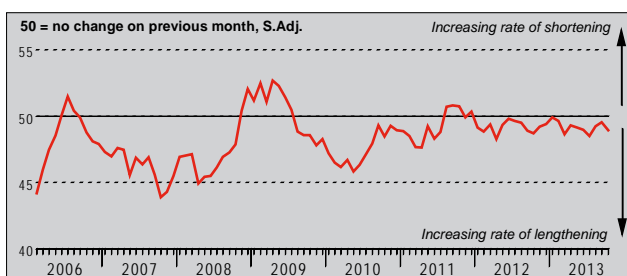
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Brazilian manufacturers reported higher prices paid for inputs in October, as has been observed in each month since September 2009. Furthermore, the rate of cost inflation picked up pace to reach its highest in five years. Evidence from survey respondents indicated that adverse exchange rates had resulted in greater import costs. Among the three monitored sub-sectors, the sharpest increase was noted at capital goods firms.

## Suppliers' Delivery Times Index

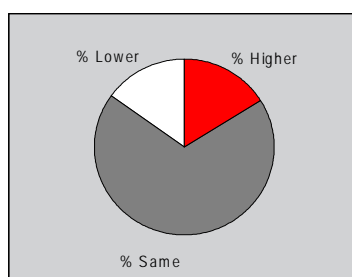
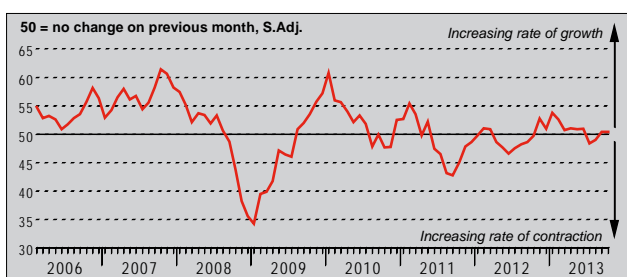
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Brazilian manufacturing sector deteriorated for the twenty-second consecutive month in October. Moreover, average lead times lengthened to the greatest extent since July. Longer supplier delivery times were linked by panellists to transportation problems and low stock levels at vendors.

## Quantity of Purchases Index

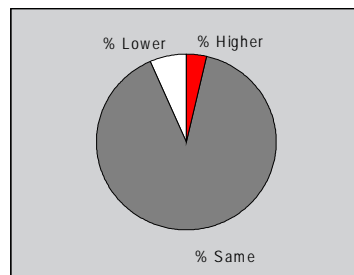
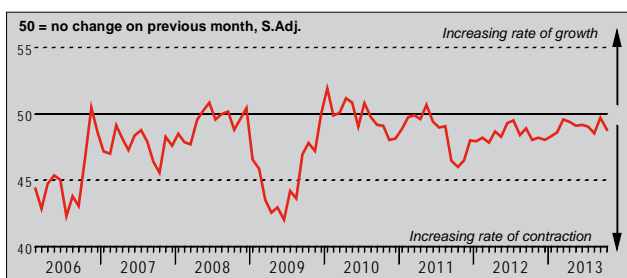
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



For the second successive month, buying activity in the Brazilian manufacturing economy rose in October. However, the overall rate of growth was only marginal and little-changed from that seen in September. Around 16% of panellists reported a higher quantity of inputs bought, citing production growth. Sector data indicated that increases in the consumer and intermediate goods sectors offset a contraction recorded at capital goods firms.

## 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 in October, marking a 29-month sequence of depletion. Although slight, the rate of decline accelerated from September. Stocks of purchases decreased at both consumer and investment goods producers, while a marginal accumulation was recorded in the intermediate goods sector.

## 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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