

HSBC Brazil Manufacturing PMI™

New order growth eases from January's 11-month high

Summary

Down from 50.8 in the previous month to 50.4, the seasonally adjusted *HSBC Brazil Purchasing Managers' Index™ (PMI™)* – a composite indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – remained in positive territory during February. Nonetheless, the latest reading was consistent with only a marginal improvement in business conditions.

Brazilian manufacturers indicated that output increased in February, stretching the current period of growth to six months. The expansion rate was, however, marginal and below the series average. According to panellists, higher production levels reflected new order growth. Intermediate goods was the only sub-sector covered by the survey to register rising output.

Incoming new orders rose further, but the pace of expansion eased from January's 11-month peak. Although respondents reported sustained demand growth, there were also mentions of increased competition for new work and a difficult economic climate. Sector data highlighted higher order book volumes across both the consumer and investment goods sub-categories.

New orders from abroad fell, amid evidence of competitive pressures and limited pricing power. That said, the rate of reduction was only marginal. New export orders dropped in the intermediate and investment goods sub-sectors, while producers of consumer goods indicated broadly no change.

In line with new order growth, Brazilian manufacturers increased their buying activity in February. Quantities of purchases rose for the second month in succession, although only slightly and at a weaker pace than in January. Nonetheless, pre-production stocks fell again. Anecdotal evidence highlighted cost reduction policies as the primary factor behind the latest drop in stocks of purchases. Similarly, holdings of finished goods were depleted further in February.

Average lead times lengthened in February, with surveyed firms reporting raw material shortages at vendors and ongoing transportation difficulties. Nevertheless, supplier performance deteriorated at a fractional rate that was unchanged from January's.

Ending a 10-month period of job cuts, manufacturing employment rose in February. The rate of growth was, however, only fractional. The increase in staffing levels was centred on the consumer goods market sector.

Output charge inflation firmed on the back of a stronger increase in average purchase costs. The rise in factory gate prices was the quickest in three months and above the series average. Input cost inflation reached a four-month high, with companies indicating that unfavourable exchange rates had resulted in higher prices paid for imported raw materials.

Comment

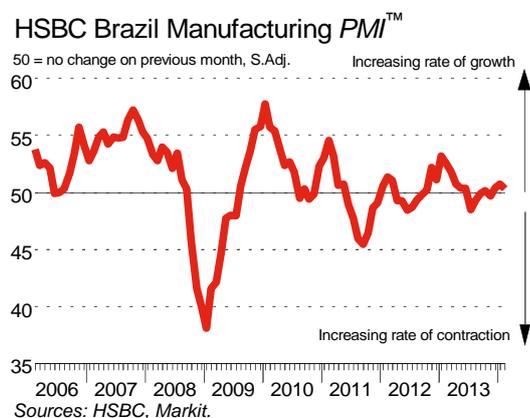
Commenting on the Brazil Manufacturing PMI™ survey, Andre Loes, Chief Economist, Brazil at HSBC said:

"The HSBC Brazil Manufacturing PMI fell to 50.4 in February, from 50.8 in the previous month. With readings so close to the 50 mark (both the headline and its components), the PMI reinforces perceptions that economic activity is stagnant. The PMI also suggests bad news on the inflation front, with the input prices index climbing to its highest since October and output charge inflation accelerating to the quickest pace since November."

Key points

- Slight and slower expansion of incoming new work
- Output rises for sixth month running, albeit marginally
- Input cost and output price inflation both accelerate

Historical Overview



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Notes to Editors:

The HSBC Brazil Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMI:

Purchasing Managers' Index[™] (*PMI*[™]) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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