HSBC Brazil Manufacturing PMI™

Modest fall in output as demand softens in February

Summary

February's survey data indicated the continued broad stagnation of Brazil's manufacturing sector. Both output and new orders fell since January, following modest growth in January, amid reports of a lack of demand at a time when a strong US dollar against the Brazilian real was pushing up prices.

The seasonally adjusted HSBC Brazil *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give an accurate overview of manufacturing operating conditions – registered a level of 49.6 in February. That was down from January's 50.7 and a three-month low.

Undermining the performance of the headline index during February were falls in both output and new orders compared to January. Companies commented that demand was subdued, exacerbated by reports of spiking market prices. The domestic market was the primary source of demand weakness, as new export orders increased on the previous month, albeit only slightly.

Market groups data showed that producers of consumers goods recorded slight increases in both production and new work. In contrast, there were sharp reductions of output and new orders seen in the investment goods category.

Anecdotal evidence indicated that a strong US dollar relative to the Brazilian real was raising the price of inputs during February, which in turn led to an increase in average prices charged by manufacturers.

Indeed, latest data showed that input price inflation, although slightly down on January's 10-month high, remained marked. A number of panellists reacted by raising the price of their own goods. Inflation has now been recorded for five months in succession, with the latest increase in output prices solid despite easing since January.

February's survey showed that purchasing activity was reduced fractionally. This reflected, in part, a desire amongst Brazil's manufacturers to utilise their inventories of purchases wherever possible, thereby avoiding having to buy goods at a time when prices were rising. Stocks of raw materials and semi-manufactured goods were subsequently down marginally for a second month running in February.

Inventories of finished goods were also down slightly as firms sought to satisfy orders directly from stock wherever possible.

With a broadly stable trend in output and new orders, little change to employment was recorded in February. There was also little evidence of capacity pressures, with backlogs of work down only slightly over the month (the first such reduction recorded since November).

Comment

Commenting on the Brazil Manufacturing PMI™ survey, Paul Smith, Senior Economist at Markit, said:

"Brazil's manufacturing sector continues to broadly stagnate, with the headline PMI continuing to track in a limited range around the 50.0 no-change mark.

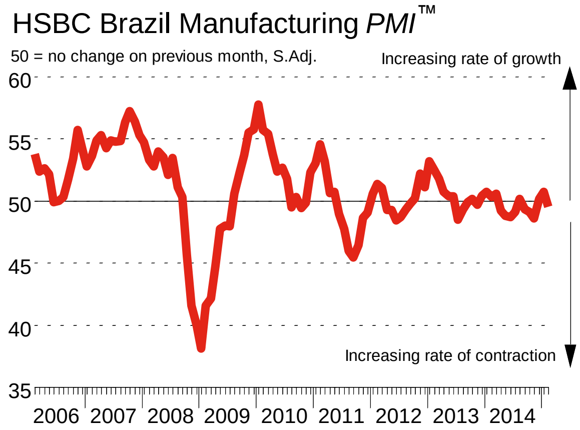
"The key feature of the February dataset was the impact of a weakening Brazilian real, which is raising the cost of manufacturing inputs, particularly those priced in dollar terms.

"The unfortunate trend of no growth and rising prices that has been a recent characteristic of the Brazilian economy therefore continues."

Key points

- New orders also down marginally
- Strength of US dollar against Brazilian real reportedly pushing up prices
- Manufacturers signal fractional rise in employment

Historical Overview



Sources: HSBC, Markit.

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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