February sees solid expansions in factory orders and production

**KEY FINDINGS**

- Output and sales increase at fastest rates in three months
- Job creation accelerates to five-month high
- Sharpest rise in input costs since October 2018

Manufacturing sector growth in Brazil moved up a gear during February as firms reacted positively to a pick-up in demand. The latest PMI data highlighted faster rates of expansion in new orders, output and employment, while business confidence remained elevated.

On the downside, exports continued to fall, while the fastest increase in input costs for 16 months caused the strongest rise in selling prices since September 2018. At the same time, vendor performance worsened sharply amid coronavirus-related disruptions to supply chains.

At 52.3 in February (January: 51.0), the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) pointed to the strongest improvement in the health of the sector since last November. Faster expansions in the consumer and intermediate goods categories compared with the steepest downturn for over three years at capital goods makers.

Aggregate production rose at the fastest pace in three months, with many companies noting better demand, improved economic conditions and stock building initiatives.

Factory orders likewise increased to the greatest extent since last November. Anecdotal evidence highlighted new product releases and partnerships as key drivers of sales growth.

New work was largely generated domestically, as manufacturers continued to indicate falling exports. That said, the latest contraction in international sales was the slowest in the current six-month period of reduction.

Recent evidence of spare capacity started to fade, with February seeing the slowest decline in unfinished business in a year. The pace of depletion was only fractional.

One factor contributing to the fall in backlogs was sustained jobs growth. Manufacturing employment increased for the second month in a row and at the fastest rate since September 2019. Companies that hired extra workers mentioned improved demand and business expansion plans.

Factory optimism remained elevated in February as firms expect investment, greater client numbers and product diversification to boost output growth in the year ahead.

Monitored companies indicated that low stock levels at suppliers and the COVID-19 caused delays in the delivery of materials. The deterioration in vendor performance was among the sharpest in the 14-year survey history. In turn, stocks of purchases decreased further.

Amid reports of US dollar strength, input costs continued to increase in February. Moreover, the rate of inflation was sharp and the quickest in 16 months.

In response to rising cost burdens, manufacturers increased their fees again in February. The rate of charge inflation was the sharpest in close to one-and-a-half years.
Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

"After posting only marginal growth in December and January, Brazil’s manufacturing sector took off in February. Buoyed by a solid and stronger expansion in demand, companies stepped up production and hiring activity. These positive developments, coupled with an elevated level of business sentiment, bode well for the sustainability of the upturn in months to come.

"Still, comments from survey participants and other PMI indices highlight a number of downside risks to the outlook. Lingering currency weakness continued to add to firms’ expenses. In turn, factory gate charges were raised to the greatest extent in almost a year-and-a-half, which could restrict demand in the near-term. Parallel to this, exports were down for the sixth month running.

"On the supply-side, the outbreak of the coronavirus in China and its spillover effects hurt supply chains worldwide. Brazilian firms noted one of the strongest increases in input delivery times in the history of the survey and further economic disruptions are expected to arise globally from the COVID-19 epidemic."

CONTACT

IHS Markit

Pollyanna De Lima
Principal Economist
T: +44-1491-461-075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

Methodology

The IHS Markit Brazil Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of “higher” responses and half the percentage of “unchanged” responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

February 2020 data were collected 10-21 February 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers’ Index™ (PMI®) surveys are now available for over 40 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.

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