

IHS Markit Brazil Manufacturing PMI®

PMI moves into expansion territory during June

Key findings

Output and new orders both register growth

Confidence about the future strengthens noticeably

Excess capacity persists and price pressures intensify

Data were collected 12-23 June 2020.

June's survey of Brazilian manufacturers signalled a return to growth of both output and new orders as business began to recover from the adverse effects of the coronavirus disease 2019 (COVID-19) pandemic. Confidence about the future also strengthened noticeably, reaching a four-month high.

However, less positive was ongoing evidence of excess capacity in the sector, whilst companies remained firmly in retrenchment mode, cutting purchasing and reducing workforce numbers. Cost pressures remained acute, with prices data showing the sharpest rise in input costs for nearly two years.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) moved back above the 50.0 no-change mark during June, reaching a level of 51.6. That compared to May's 38.3 and represented the first month of growth recorded by the survey since February.

Supporting the PMI were returns to expansion in both output and new orders. Panellists commented that businesses were reopening and demand picking up. However, growth was mainly domestic led – export sales continued to fall – and panellists continued to note that overall volumes of new business remain extremely low when compared to those seen before the onset of the pandemic.

Indeed, despite the positive news on production and new work, firms continued to operate at levels well below capacity. Overall workloads were comfortably dealt with, as evidenced by a third successive monthly reduction in

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Brazil Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Paul Smith, Economics Director at IHS Markit, said:

"Brazil's manufacturing sector returned to expansion during June, underpinned by rising output and new orders as companies benefited from a broader uplift in economic activity. Firms anticipate this positive trend to continue over the coming months, with confidence amongst firms reaching its highest level since February.

"However, we have to put the latest numbers in the context of the collapse in output during April and May. Modest growth only goes a small (albeit positive) way to make up for recent losses, and firms subsequently – faced with lots of excess capacity – are continuing to cut jobs and purchasing at a rapid rate.

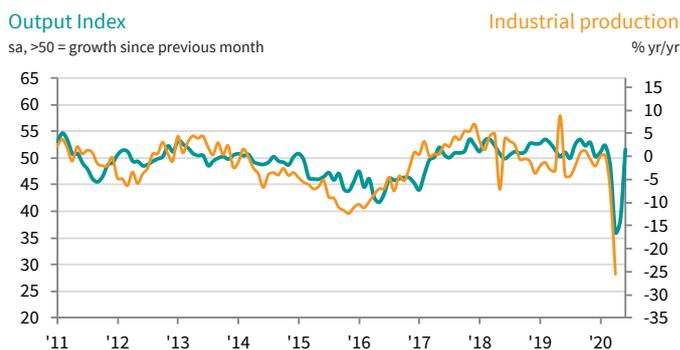
"Part of this retrenchment also reflects a desire to minimise costs as price pressures intensified over the month with both input costs and output charges rising sharply on the back of unfavourable exchange rate movements."

backlogs. Firms also continued to cut both employment and purchasing activity, albeit at lower rates than in the previous month.

For both purchasing and employment, firms indicated a desire to lower costs at their plants, aiming to raise productivity or utilise inventories in output wherever possible. Stocks of inputs were cut for a ninth successive month during June, whilst there was a slight drop in warehouse goods for a tenth month in a row.

Cost pressures intensified in June. An unfavourable exchange rate between the Brazilian Real and US dollar was widely reported to have raised the price of dollar-denominated inputs, with firms also noting that the cost of foodstuffs was higher. Overall, input price inflation was the sharpest for 21 months. Output prices were raised in response to the uplift in input costs, with the rate of increase also the greatest recorded by the survey since September 2018.

Despite the squeeze in margins, panellists were buoyed by returns to growth in both output and new orders. Amid positive projections for demand and sales in the coming 12 months – as hopes build of a resumption of economic activities – confidence about the future improved during June to its highest level since February.



Sources: IHS Markit, IBGE.

Contact

Paul Smith
Economics Director
IHS Markit
T: +44-1491-461-038
paul.smith@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Survey 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.

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

Survey dates and history

Data were collected 12-23 June 2020.

Survey data were first collected February 2006.

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About PMI

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. ihsmarkit.com/products/pmi.html