There was a noticeable acceleration in growth of Brazil’s manufacturing sector during July as a record increase in production was supported by the sharpest rise in new orders since the start of 2010. Demand strengthened in line with the continued reopening of the economy following the lockdown related to the coronavirus disease 2019 (COVID-19) pandemic. Confidence about the future improved to its highest level of 2020 so far whilst jobs were added for the first time in five months.

Less positive were trends in prices. Input cost inflation accelerated to its highest ever level, driven up by increased prices for metals and unfavourable exchange rates. Output charges were subsequently raised substantially.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) registered 58.2 in July, up over six points on June’s 51.6 and above the 50.0 no-change mark for the second month in succession. Moreover, the PMI was at its highest level in the survey history, which began in February 2006.

A noticeable upswing in domestic demand was reported to have driven the second-sharpest rise in new orders recorded to date (surpassed only by January 2010). The ongoing opening of the economy was widely reported to have supported growth, according to panellists, but primarily in domestic markets. According to the latest data, export demand continued to weaken, with sales to foreign clients reportedly down for an eleventh successive month.

Comment

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

“A record expansion of the Brazilian manufacturing economy in July went a long way to help close the considerable gap that has emerged in production when compared to levels seen before the intensification of COVID-19. The positive trends in both output and new orders is also helping to drive optimism about the future, with over 80% of panellists forecasting growth to be sustained over the coming months. That’s helped encourage firms to rehire staff as plant operations are ramped up further.

"However, with COVID-19 still prevalent – and continuing to have a noticeable negative impact on global trade – there remain many downside risks to the future. Price pressures also remain a concern, with record increases in input costs having an adverse impact on profitability – despite firms in turn raising their own output charges at a considerable pace.”
Nonetheless, the sharp rise in total new orders led to the strongest increase in manufacturing production ever recorded by the survey. Growth was considerable and the increase in production requirements helped to explain a strong rise in purchasing of inputs over the month. Inventories of purchases were little changed, however, and firms also continued to run down their stocks of finished goods as they struggled to deal with the sharp uptick in sales. Indeed, capacity came under some pressure over the month, as signalled by a first increase in backlogs of work recorded by the survey in four months (with growth also the sharpest for more than two years). Employment subsequently increased, rising for the first time in five months and at a solid pace that was the best since September 2019.

On the price front, inflation accelerated during July due to increased prices for metals, unfavourable exchange rate factors and suppliers raising costs due to stock shortages (which led to another marked deterioration in lead times). The overall net increase in input costs was the sharpest in the survey history and led to a record increase in output charges. Finally, optimism about the future continued to build, with over 80% of panellists indicating positive expectations for growth. Confidence was the highest of the year so far, with firms anticipating continued recovery of demand and sales in the next 12 months.

**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 13-23 July 2020.

Survey data were first collected February 2006.

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