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IHS MARKIT BRAZIL MANUFACTURING PMI®

Production growth hits five-month high amid marked rise in sales

KEY FINDINGS

Output rebounds from July's contraction

Factory orders expand at fastest pace in 17 months...

...underpinning renewed growth of employment

The health of the Brazilian manufacturing industry strengthened solidly in August, supported by marked increases in factory orders and output. Buoyed by the rebound in sales, companies resumed input buying and jobs growth, whilst rebuilding their stocks. Other positive developments included an uptick in business sentiment and a slowdown in the rate of input cost inflation.

Rising from 49.9 in July to 52.5 in August, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to a renewed improvement in operating conditions that was the strongest since March. Moreover, the PMI edged above its long-run average.

One contributing factor to the upward movement in the headline figure was a marked and accelerated increase in order books. Survey participants reported better demand conditions, the successful launch of new products and the securing of extra clients. Aggregate sales expanded at the fastest pace in close to one-and-a-half years.

As a result, manufacturers lifted output halfway through the third quarter, following the first contraction in over a year during July. Furthermore, growth was widespread across the consumer, intermediate and investment goods sectors.

New export orders increased marginally in August, with the upturn representing a turnaround from contractions in each of the prior eight months.

Manufacturing PMI
sa, >50 = improvement since previous month



August data highlighted job creation in the manufacturing industry, ending a three-month period of contraction. Firms that noted higher employment commented on improved demand. The rate of expansion was, however, marginal.

Outlays on inputs increased during August, following a contraction in July. The overall pace of expansion was solid and the quickest in five months. Consequently, companies were able to rebuild their holdings of raw materials and semi-finished items after a fall in the prior month.

Post-production stocks at Brazilian manufacturers also rose, but the upturn was marginal and the slowest in the current seven-month sequence of accumulation. Growth was reportedly curbed by the fulfilment of sales from inventories.

Amid reports of successful price negotiation with vendors and the sourcing of different suppliers, cost inflation softened in August. Aggregate input prices rose at the weakest rate since January. Subsequently, selling prices were raised to the least extent in almost two years.

Sentiment towards the year-ahead outlook for production climbed to a four-month high, boosted by predictions of better economic conditions and favourable public policies. Product diversification and investment also underpinned optimism in August.

COMMENT

Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

"The Brazilian Manufacturing PMI moved back into positive territory during August, posting a growth rate that was above the survey average, after stagnation had been recorded in July. Factories ramped up production to the greatest extent in five months and created jobs for the first time since April, suggesting that there is appetite for capacity expansion amid positive growth projections.

"A key insight from the latest survey was a slowdown in price pressures, with companies reporting that the sourcing of alternative suppliers and successful negotiations with vendors partly offset rising costs for imported items arising from currency depreciation. This contributed to the slowest rise in selling charges for nearly two years, which likely helped boost sales halfway through the third quarter.

"Exports rose in August for the first time in nine months which, coupled with the fastest expansion in total sales in nearly one-and-a-half years and softening inflation, encouraged stock building via the purchasing of additional inputs. The industry performance has been volatile throughout 2019 so far. Upcoming PMI data releases will show if such strength can be sustained at least in the near term."

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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.

August 2019 data were collected 12-22 August 2019.

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

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit, IBGE.

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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. To learn more go to ihsmarkit.com/products/pmi.html.