

IHS Markit Brazil Manufacturing PMI®

Renewed growth of factory orders and production

Key findings

Output and sales expand in May

Companies lift input buying and employment

Business confidence strengthens

Data were collected 12-21 May 2021.

Despite rising COVID-19 cases and ongoing local restrictions to stem the spread of the virus, Brazil's manufacturing sector returned to expansion territory in May. Companies noted a modest rise in sales, which encouraged them to scale up production, purchase more inputs and hire additional workers. Business sentiment also improved halfway through the second quarter.

On the price front, rates of input cost and output charge inflation cooled, but remained sharper than any seen prior to the pandemic (since data collection started in February 2006).

At 53.7 in May, up from 52.3 in April, the IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to a further improvement in the health of the sector. The above-50 reading reflected renewed growth of output and new orders, alongside sustained increases in employment and stocks of purchases. Meanwhile, vendor performance worsened sharply, albeit to the least extent in ten months.

Good producers reported growth of new work intakes during May, which they associated with strengthening demand conditions. The rise was the first in three months, though moderate overall. Anecdotal evidence indicated that the upturn was curbed by the COVID-19 pandemic.

Brazilian manufacturers stepped up production volumes in May. After falling for two months in a row, overall factory output rose modestly.

Although new export orders expanded for the fourth successive month, the rate of growth remained marginal.

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Brazil Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"It's encouraging to see how quickly the manufacturing sector recovered from the recent downturn related to the new wave of COVID-19 cases. Rates of expansion in new orders and production were modest at best, but there was a solid upturn in factory jobs and business optimism."

"Survey members again hoped that vaccine availability will improve in the coming months, limiting the spread of the disease and fostering output growth. A number of firms plan to launch new products and boost investment."

"Supply-chain issues remained topical, with many companies signalling severe delays in receiving purchased items. Bottlenecks at global logistics firms, alongside real depreciation, also led to another steep increase in input costs that was unprecedented before the pandemic."

"Manufacturers shared part of the additional cost burdens with clients by hiking their charges further. While this is expected as firms shield margins from cost rises, demand could take a hit in the coming months. In particular, any gains in international competitiveness due to real weakness could be erased."

Panellists that experienced an uptick in international demand reported higher sales to fellow LATAM clients and real depreciation (against the US dollar).

Goods producers sought to accommodate for rising new work intakes and expected improvements in demand by expanding operating capacities. Employment increased for the second straight month and at a solid pace.

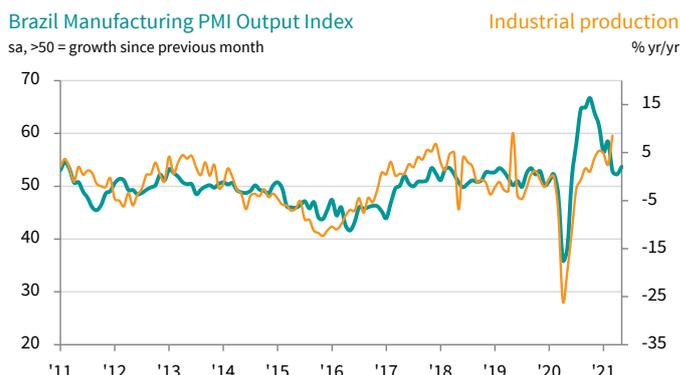
Indeed, business sentiment improved to a three-month high in May. Moreover, the overall level of confidence was above its long-run average. Firms hope that vaccine progress, product diversification, investments and a reduction in supply-chain disruptions will underpin output growth over the course of the coming 12 months.

Amid reports of efforts to safeguard against raw material shortages, goods producers purchased additional inputs during May. The overall rate of expansion was solid and the quickest in three months.

Pre-production inventories did increase, but only marginally amid delays in the receipt of purchased inputs from suppliers.

Average lead times lengthened to one of the greatest extents seen in the survey history. Panellists continued to report a lack of raw material availability, supply-chain constraints and issues with international shipping.

Raw material scarcity coupled with real depreciation led to another increase in input costs. The rate of inflation softened to a ten-month low, but surpassed any seen before the COVID-19 crisis. Similarly, selling prices rose at a pace sharper than any seen prior to the pandemic.



Sources: IHS Markit, IBGE.

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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 12-21 May 2021.

Survey data were first collected February 2006.

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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. ihsmarkit.com/products/pmi.html