

Embargoed until 1000 Sao Paulo (1200 UTC) 1 February 2019

IHS MARKIT BRAZIL MANUFACTURING PMI®

Manufacturers lift production and jobs in line with marked sales growth

KEY FINDINGS

Solid increases in factory orders and output

Renewed upturn in payroll numbers

Confidence strengthens to series peak

January saw a continuation of solid increases in manufacturing production and sales across Brazil, which have been evident since the end of the presidential elections. Although some momentum was lost in both cases, growth rates were still above their historical averages. Moreover, goods producers scaled up their input buying and hired staff at the quickest pace in ten months. Also, business confidence climbed to a series peak.

Rising marginally from 52.6 in December to 52.7 in January, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to the joint-fastest improvement in the health of the sector since last March. Business conditions strengthened to the greatest extent in the capital goods industry, though growth was also evident in the consumer and intermediate goods categories.

Amid reports of robust demand and favourable market conditions, inflows of new business increased for the seventh month running at the start of 2019. The upturn softened slightly from December, but remained marked. In turn, goods producers lifted output. There was a marginal slowdown in growth, though the rise was the second-fastest since March 2018.

January data indicated that the domestic market was the key driver of total new order growth, as the contraction in external sales quickened to the fastest in two years. Panel members commented on weak global demand, with Argentina mentioned in particular.

Manufacturing PMI
sa, >50 = improvement since previous month



Buoyed by robust demand for their goods, manufacturers expanded their capacities in January by taking on additional staff. The rise in employment reversed the contraction noted in December and was the strongest since last March.

Additional inputs were purchased in January, taking the current run of growth to three months. That said, holdings of raw materials and semi-finished items decreased amid shortages of inputs at vendors and subsequent delivery delays.

Inventories of finished items also fell, which panel members linked to the fulfilment of orders from stocks. Meanwhile, there was a quicker reduction in outstanding workloads.

Although input costs continued to rise, the rate of increase softened to the weakest in one-and-a-half years. Improvements in the Brazilian real, particularly against the US dollar, reportedly curbed inflation in January.

On the other hand, a stronger rise in selling prices was registered at the start of the year. Those firms that hiked their fees cited the pass through of recent increases in cost burdens to their clients.

Sentiment among Brazilian manufacturers regarding the 12-month outlook for output improved to the strongest in the series history during January. Boosting confidence were forecasts of further improvements in economic conditions, the launch of new products and a favourable political scenario.

COMMENT

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

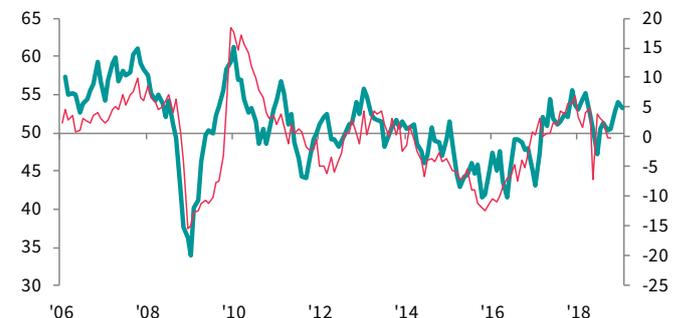
"Demand strength continued to be supportive of the manufacturing industry at the start of the year, boosting sales, purchasing activity and output. More jobs were created, and across all three monitored sub-sectors. Buoyed by this sustained upturn in domestic demand, factories lifted production at one of the strongest rates seen since early 2018.

"New export orders disappointed, falling for the second straight month and to the greatest extent in two years, as ongoing troubles in Argentina and a general slowdown in global trade hampered external orders.

"Cost inflation eased further, as improvements in the BRL/USD offered respite to manufacturers. Companies nevertheless hiked their fees to a greater extent, supported by robust demand conditions and in attempts to improve margins, which have been squeezed by sharp cost increases over the past year or so."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, IBGE.

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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.

January 2019 data were collected 11-24 January 2019.

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