Manufacturing production growth hits one-and-a-half-year high

The Brazilian manufacturing industry continued to go from strength to strength, with operating conditions improving at the joint-fastest pace in 22 months. Following a return to growth in August, production rose at the quickest rate in one-and-a-half years as firms responded to a similar acceleration in order flows. These developments underpinned solid increases in quantities of purchases and employment, while business sentiment remained elevated by historical standards.

At 53.4 in September, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) highlighted an improvement in the health of the sector for the second straight month. Moreover, rising from 52.5 in August, the PMI was at its joint-highest mark since November 2017.

Both new orders and production increased at the fastest rates in one-and-a-half years at the end of the third quarter, with expansions noted across all three broad areas of the manufacturing industry. Anecdotal evidence highlighted stronger underlying demand, new client wins and the offering of new products as the key reasons boosting sales.

Data suggested that the upturn in order books was centred on the domestic market, with aggregate exports down in September. According to panel members, a challenging export climate and troubles in Argentina curbed international sales.

Encouraged by stronger inflows of new work, Brazilian manufacturers were willing to loosen the purse strings in September as highlighted by back-to-back increases in input buying and employment. The latter rose to the greatest extent in seven months, which panellists linked to upbeat growth projections and strengthening demand. Quantities of purchases expanded at a softer pace than in August, but one that was nonetheless solid.

The upturn in input buying was sufficient to lift firms’ stocks of purchases, though here too a slowdown was evident. Conversely, holdings of finished goods declined for the first time since January. Panel members attributed the reduction to the fulfilment of orders from inventories.

Input price inflation ticked higher amid reports of currency weakness (versus US dollar). The rate of increase in cost burdens was marked and the quickest in three months.

Goods producers sought to share additional increases in input costs with their clients by lifting their charges again at the end of the third quarter. Although moderate, the rate of charge inflation was at a three-month high.

Companies remained optimistic towards growth prospects, with predictions of better economic conditions, favourable public policies, stronger demand and innovation underpinning positive sentiment. The aggregate level of confidence was elevated in the context of historical survey data, despite falling slightly from August.
COMMENT

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

“The Brazilian Manufacturing PMI remained firmly inside growth territory in September, signalling a continued recovery in the health of the sector after a blip in July.

“Factories ramped up production at a pace hardly seen over the past seven years, with the solid upturn in jobs suggesting that businesses expect growth momentum to be sustained in the near-term.

“Inflows of new work expanded at the strongest rate in one-and-a-half years, which bodes well for future output and the labour market alike.

“Of concern, but not surprising, the PMI survey brought news of falling exports. In addition to a global slowdown in trade, international sales continued to be squeezed by ongoing troubles in Argentina, one of the top destinations for Brazilian exports. The last time goods producers signalled a sustained month-on-month increase in external sales was in early 2018.”

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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.

September 2019 data were collected 12-23 September 2019.

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

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