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IHS MARKIT BRAZIL MANUFACTURING PMI®

Manufacturing conditions improve from December's five-month low

KEY FINDINGS

PMI up from 50.2 to 51.0

Mild accelerations in growth of new work and production

Job creation reinstated

The health of Brazil's manufacturing sector improved to a greater extent in January, after growth had lost momentum at the end of 2019. That said, the accelerated increases in output and order books were slight at best. One notable positive was a return to job creation, which was accompanied by a robust degree of business confidence regarding growth prospects.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) rose from 50.2 in December to 51.0 in January, signalling a stronger improvement in operating conditions that was nevertheless weaker than recorded on average over 2019. Growth was unchanged in the consumer goods category and strengthened in intermediate goods, but capital goods makers continued to signal deterioration.

Companies reported a further increase in sales, the eighth in as many months, but the upturn was slight despite picking up from December. Growth stemmed from higher demand, but was restricted by competitive conditions as well as unpredictable economic policies.

New export orders continued to decline in January. Although softer than in December, the pace of contraction remained marked.

Similar to the trend for total new business, manufacturing production increased at a faster though only slight pace. Output growth in the intermediate and consumer goods categories contrasted with reduction at capital goods makers.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Faced with subdued demand conditions, manufacturers focused on the completion of their outstanding business. Backlogs decreased at a marked pace that was nonetheless softer than that registered in December.

Manufacturing employment rose at the quickest pace since last September, following the first reduction in headcounts for five months in December. Where payroll numbers increased, panellists commented on expected sales growth, investment and the replacement of previously departed workers.

Confidence in the outlook was also evident through an elevated level of business sentiment. In fact, 78% of survey participants predict output growth in the year ahead.

Brazilian manufacturers remained reluctant to hold excess stock, with inventories of both inputs and output declining further at the start of 2020. The fall in stocks of purchases occurred in parallel to only a fractional increase in buying activity.

Elsewhere, there was a slower increase in input costs and a sharper upturn in selling charges. The rise in overall expenses reflected higher fees for chemicals, metals, oil and plastics, but was curbed by discounts offered by suppliers that reportedly had excess stocks. The rate of input cost inflation nevertheless exceeded that for selling charges, as has been the case for over five years.

COMMENT

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

"While comfort can be taken from the fact that Brazil's manufacturing industry remains in expansion mode, the latest PMI results suggest that growth failed to gain meaningful traction. But, while the picture for new work wasn't as bright as hoped for, firms were prepared to increase capacity in anticipation of better conditions over the course of the coming 12 months.

"The robust degree of business optimism signalled at the start of 2020 should ensure that both investment and jobs will increase in the near-term, boding well for economic expansion. IHS Markit forecasts GDP growth of 1.7% this year as interest rate cuts act to boost consumption and investment.

"Capital goods continued to drag the performance of the manufacturing sector as a whole, as output and new orders here fell further whilst growing elsewhere. Another barrier to growth remains trade weakness, with goods producers noting a fifth consecutive drop in exports despite currency depreciation."

CONTACT

IHS Markit

Pollyanna De Lima
Principal Economist
T: +44-1491-461-075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

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 2020 data were collected 13-24 January 2020.

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.