Brazil's manufacturing economy retained considerable positive momentum during August, as fresh survey record increases in production, new orders and purchasing were all recorded. Demand and domestic market activity were reported to be strengthening in line with the recovery from the lockdown related to the coronavirus disease 2019 (COVID-19) pandemic. Jobs were again added, and to the greatest degree for ten-and-a-half years.

However, profitability was placed under considerable strain as input prices rose at an unprecedented and considerable pace on the back of unfavourable exchange rate movements and a scarcity of goods at vendors.

After accounting for seasonal factors, the IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) strengthened to 64.7 in August, up from 58.2 in July. The latest PMI reading was unprecedented in the survey history and the index has now posted above the 50.0 no-change mark for three months in a row following the lockdown related lows of April and May.

Driving the PMI higher during the latest survey period were record increases in both production and new orders. Companies reported that demand was sustaining the recovery from the lockdown related contractions earlier in the year, with market activity heating up noticeably. However, growth was principally driven by the domestic market: new export orders contracted for a twelfth successive month as foreign demand continued to underwhelm.

Commenting on the latest survey results, Paul Smith, Economics Director at IHS Markit, said:

“Brazil's manufacturing sector continued to rapidly close the output gap that opened up when the COVID-19 pandemic took hold. Growth rates in production and new orders hit their highest ever levels and helped to drive an unprecedented rise in purchasing activity. Job hiring subsequently took off, with growth in employment the best in over a decade.

Whilst optimism about the future remains high and suggests that firms anticipate ongoing gains in the coming months, some concerning developments were signalled by the survey. Indeed, logistical difficulties amongst suppliers led to a noticeable lengthening of lead times and placed a limit on growth during the month. Moreover, the short supply of inputs and unfavourable exchange rate factors drove an eye-wateringly high pace of input cost inflation.”

Data were collected 12-21 August 2020.
The positive trends in overall new orders and production helped to drive a considerable increase in purchasing activity. Growth was also the sharpest in the survey history and put vendors under noticeable pressure. Average lead times deteriorated at an unprecedented rate, with firms reporting that vendors not only had insufficient stocks to deal with higher demand, but also continued to face noticeable logistical difficulties due to COVID-19.

Stock shortages and rising demand, plus unfavourable exchange rate factors, drove overall operating costs up at a considerable pace over the month. In fact, the latest data indicated that input price inflation was unmatched in the survey’s history. Brazilian manufacturers responded by raising their own charges sharply, and at a record pace.

The strong increase in total new orders placed pressure on capacity during August as evidenced by the strongest rise in backlogs of work recorded by the survey for over two years. Employment numbers were subsequently raised, with the rate of growth accelerating noticeably to its highest level for ten-and-a-half years.

Finally, looking at the coming 12 months, confidence about the future remained high as most companies expect a rise in activity from present levels. Firms widely anticipate that sales will maintain their positive trajectory as the recovery from the COVID-19 pandemic continues.