

IHS Markit Brazil Manufacturing PMI®

Record rise in stocks of finished goods as firms step up production

Key findings

Unprecedented increase in post-production inventories

Output growth quickens amid faster upturn in new orders

Stocks of purchases also expand at record rate

Data were collected 12-23 July 2021.

The economic recovery of the Brazilian manufacturing industry was extended to July, as firms sought to rebuild inventories by purchasing more inputs and scaling up production volumes. Companies benefited from stronger inflows of new business and continued with their hiring efforts. Meanwhile, global shortages of raw materials and real weakness placed further pressure on inflation rates, with both input costs and output charges increasing substantially.

At 56.7 in July, up from 56.4 in June, the IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) reached a five-month high and was above its long-run average. The latest figure pointed to a strong improvement in the health of the sector. All three monitored areas of the manufacturing sector recorded growth, with capital goods the strongest performer.

Buoyed by a pick-up in demand, goods producers focused on rebuilding their inventories. Stocks of finished items increased for the fourth consecutive month and at the fastest pace in the fifteen-and-a-half-year survey history.

July data pointed to a third successive increase in manufacturing output, with the rate of expansion the quickest in this sequence. The upturn was often attributed to rising sales.

Highlighting the strength of demand, factory orders expanded at the quickest rate in seven months and one that far outpaced the long-run survey average. The improvement in demand was largely centred on the domestic market as international sales increased only fractionally.

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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:

"Manufacturers enjoyed a robust rise in sales during July, which supported a quicker upturn in production. What's more, demand strength and beliefs that such trend will be sustained encouraged firms to size up their inventories. Stocks of both inputs and output increased at unprecedented rates."

"Several companies indicated the scaling up of input purchasing to safeguard against stock shortages, but there remained concerns about difficulties in sourcing items such as chemicals, electronic components, metals, plastics and textiles."

"As such, strong demand for scarce products pushed up cost burdens once again. Both input prices and output charges increased at slower rates that were nevertheless unseen in the survey history prior to August 2020."

"Having lifted the benchmark SELIC rate three times so far this year to contain inflation, the central bank is expected to continue with its tightening stance amid attempts to meet its inflation target."

Reflecting the increase in new orders, manufacturers purchased additional inputs for use in the production process. Input buying expanded at a marked rate that was the strongest in 2021 so far.

Subsequently, stocks of purchases continued to increase at the start of the third quarter. The rate of accumulation was marked and the fastest on record.

Survey participants indicated that supply-chain disruptions eased in July. Although average lead times to lengthened further, it did so to the least extent in over a year. Where vendor performance was deemed to have worsened, panellists mentioned raw material scarcity.

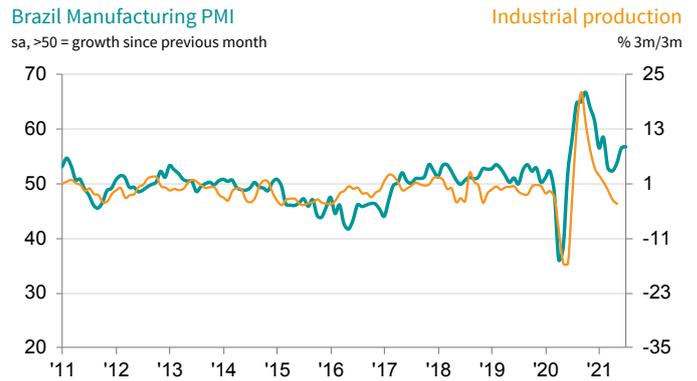
Meanwhile, job creation was extended to July. The rate of employment growth softened from June, but remained marked by historical standards. Companies that hired extra staff mentioned strong sales growth and efforts to deliver products in a timely manner.

Companies were able to reduce their outstanding business for the second month in a row during July. Furthermore, the pace of backlog depletion was solid and quickened from June.

Amid reports of global shortages of materials, input costs increased again in July. Although the slowest in a year, the overall rate of inflation remained substantial.

Similarly, output charges rose at a sharp rate that was nonetheless the slowest in six months.

Companies expect the rebound in demand to continue, which coupled with growing vaccine coverage, underpinned upbeat projections for output in the year ahead. The overall level of positive sentiment remained elevated, but slipped to a four-month low.



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 12-23 July 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