

IHS Markit Brazil Manufacturing PMI®

Output and sales growth grind to a halt amid raw material scarcity

Key findings

New orders and production fall for first time in six months

Notable slowdown in input buying growth

Job creation sustained in October

Data were collected 12-22 October 2021.

Although the headline PMI pointed to an ongoing improvement in manufacturing sector conditions in Brazil, owing to further increases in employment and stocks of purchases, there were renewed contractions in factory orders and output. Companies indicated that price pressures and input shortages restricted production, total sales and demand from international markets. Attempts to prevent stockouts supported another expansion in quantities of purchases, but growth eased noticeably from September.

Raw material scarcity led to a sharp increase in input costs that was stronger than any seen in the survey history prior to August 2020, a trend that was also recorded for output prices.

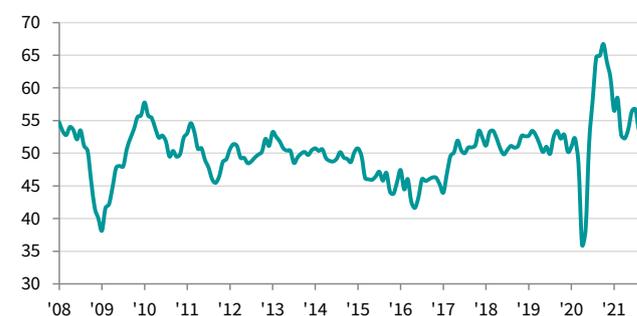
Posting 51.7 in October, the IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) signalled a seventeenth successive monthly improvement in the health of the sector. However, falling from 54.4 in September to its lowest mark since June 2020, the latest reading was indicative of a slight pace of expansion. The above-50.0 reading stemmed from sustained growth of stocks of purchases and employment, as well as delays in supplier delivery times (normally a reflection of strengthening demand conditions).

Goods producers recorded the first decline in output since April, which they associated with subdued sales, raw material scarcity and severe price pressures. That said, production decreased at a slight rate.

New work intakes also fell for the first time in six months and at a slight pace. Panel members attributed the contraction

continued...

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:

"The PMI results showed that lingering supply-chain problems highlighted by Brazilian manufacturers in recent months escalated considerably in October, after receding in September, thus having a negative impact on firms' orders books and production."

"With companies unable to source key raw materials, production schedules were halted and clients postponed purchases in views that orders would not be fulfilled in a timely fashion. Sales were also lost due to a reluctance among customers to pay more for certain goods."

"Manufacturers reported a wide range of items in short supply, which pushed up prices charged for them. Increases in cost burdens were transferred to clients via another monthly rise in output prices."

"Several firms were confident that production volumes could expand in the year ahead should the supply crisis retreat, but many others expect these problems to persist and lead to severe price pressures. We saw business confidence weaken to a 17-month low in October."

"While jobs continued to grow for now, a sustained fall in sales, rising operating expenses and subdued business sentiment could derail the recovery of the labour market."

in sales to a lack of raw materials to follow through new orders in a timely manner. Subdued client confidence and higher prices for finished goods were also cited as factors dampening demand.

Brazilian manufacturers continued to hire additional workers in October. Despite softening from September, the rate of employment growth was solid. Anecdotal evidence suggested that job creation stemmed from expected increases in production and staff replacement.

Additional inputs were purchased in October, as firms sought to safeguard against material shortages and proceed with production schedules as planned, but the rate of expansion eased to a six-month low and was only slight. Growth was curbed by a reluctance among some companies to buy extra inputs due to elevated prices for them and weak sales.

Stocks of purchases rose for the seventh month in a row during October, but at a softer pace as firms found it challenging to source key raw materials.

Shortages of chemicals, electronic components, fabrics, metals, packaging and plastics among suppliers were behind delivery delays in October. According to firms, average lead times also lengthened due to limited container availability and other logistical issues.

These supply problems meant that average input costs continued to increase, with firms in turn lifting their output charges again. In both cases, rates of inflation were sharper than any seen prior to August 2020.

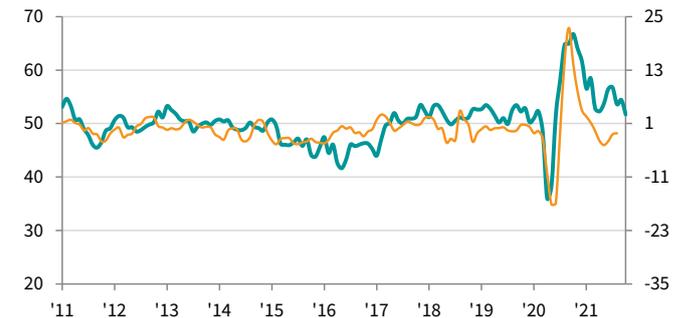
Hopes that supply-chain issues will subside underpinned business optimism in October. However, concerns over political and price instability dragged down confidence to a 17-month low.

Brazil Manufacturing PMI

sa, >50 = growth since previous month

Industrial production

% 3m/3m



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 12-22 October 2021.

Survey data were first collected February 2006.

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