

Embargoed until 1000 Sao Paulo (1300 UTC) 2 May 2019

IHS MARKIT BRAZIL MANUFACTURING PMI®

Growth in Brazil's manufacturing industry slows further

KEY FINDINGS

PMI slides to six-month low, but remains in growth territory

Softer increases in factory orders, production and jobs

Quicker contraction in international sales

Although business conditions in Brazil's manufacturing sector improved for the tenth straight month in April, growth lost further momentum. Factory orders increased at the weakest pace since mid-2018, leading to softer expansions in production, input buying and employment. The news of a slowdown were accompanied by signs of a build-up in input cost inflation and faltering exports. Still, business sentiment strengthened to the second-highest level since the future expectations question was introduced in April 2012.

Remaining above the critical 50.0 threshold in April, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to an ongoing improvement in the health of the sector. However, the headline figure fell from 52.8 in March to a six-month low of 51.5. Softer trends were evident in the consumer and intermediate goods categories, while growth among capital goods makers held up.

Despite rising for the tenth consecutive month, sales showed the weakest upturn since July 2018. Weighing on total new work was a further contraction in external demand. Export orders decreased for the fifth month in a row.

Production continued to increase solidly. Growth moderated to a five-month low, but outpaced the average for 2018 as a whole. As was the case for new work, capital goods makers led the upturn in output.

Manufacturing PMI
sa, >50 = improvement since previous month



Job creation was sustained in April, although here too was a slowdown evident. The rise was the weakest in the current four-month period of growth. Companies that lifted payroll numbers indicated greater output needs, while those that refrained from hiring mentioned a cautious approach to cost management.

Input buying growth slowed to the weakest in 2019 so far. However, inventories of raw materials and semi-finished items continued to increase. Similarly, stocks of finished goods rose for the third consecutive month.

Amid subdued sales, Brazilian goods producers diverted resources into outstanding business. Backlogs of work declined at the fastest pace in over one year during April. At the same time, supplier performance worsened to a greater extent, reportedly due to raw material scarcity and delays in the delivery of materials from international sources.

Currency weakness, meanwhile, exerted upward pressure on input price inflation. The rise in cost burdens was sharp, the fastest in six months and stronger than seen on average over the survey history. Selling price inflation eased from March, curbed by competitive pressures.

Looking ahead, manufacturers expect product innovation, better export opportunities and favourable economic conditions to support output growth. Furthermore, the degree of optimism was the second-highest in the series history, behind only that registered at the start of the year.

COMMENT

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

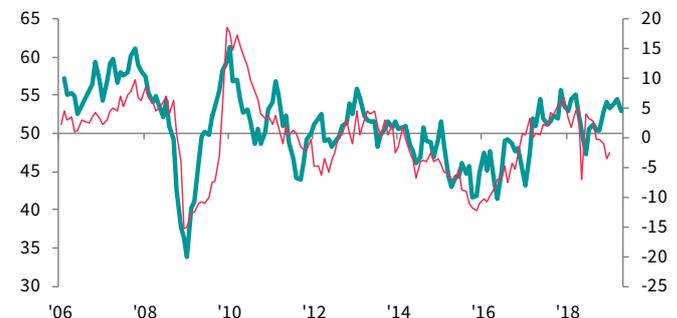
"Faltering new order growth and lingering trade challenges created headwinds for Brazilian manufacturers at the start of the second quarter. These setbacks hindered the ability of firms to sustain the solid increases in employment signalled at the start of the year. The latest upturn in jobs was marginal at best, having eased to the weakest in 2019 so far.

"Cost management remains a concern among goods producers, also restrictive of job creation, and firms saw an undesirable acceleration in input price inflation as the Brazilian real weakened, making imported items costlier.

"Encouragingly, a healthy expansion in output was registered in April – despite a moderation in the rate of growth – while sentiment towards the outlook strengthened. With stocks showing signs of piling up, further increases in production will depend on whether demand can show renewed vitality in the coming months."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, IBGE.

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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.

April 2019 data were collected 10-23 April 2019.

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

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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.