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IHS MARKIT BRAZIL MANUFACTURING PMI®

Manufacturers end 2018 on strong growth patch

KEY FINDINGS

PMI little-changed from November's eight-month high

Strongest rises in production and sales since March

Business sentiment second-highest in series history

Brazilian factories ended 2018 on a solid footing, producing goods at the sharpest pace in nine months in response to stronger sales. The upturn in demand was domestically driven, as shown by a renewed decline in new export orders. Other positive takeaways from the latest survey include back-to-back growth of input purchasing, softer inflationary pressures and the second-highest level of business sentiment in the series history. However, there was a renewed fall in jobs.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) posted 52.6 in December, broadly similar to November's eight-month high of 52.7, indicating a further strengthening of operating conditions across the sector. For the final quarter as a whole, the PMI average of 52.1 was the highest seen since Q1 2018.

An upsurge in domestic demand for Brazilian-manufactured goods underpinned the sharpest rise in sales since March. Subsequently, firms stepped up production in December. New orders and output continued to increase in the consumer and intermediate goods categories, but capital goods makers experienced renewed contractions.

Competitive pressures in external markets and ongoing economic troubles in Argentina caused a renewed fall in new export orders at the end of the fourth quarter. However, the rate of contraction was slight overall.

To fulfil existing orders, and in anticipation of further growth, manufacturers purchased additional inputs for use in the production process. The slight rise in buying levels was the

Manufacturing PMI
sa, >50 = improvement since previous month



second in as many months.

As a result, holdings of raw materials and semi-finished items increased for the second straight month in December. Inventories of finished goods likewise rose, after depletion had been registered in October and November.

Although input prices rose again, the rate of inflation softened to the weakest in almost one-and-a-half years as firms benefited from improvements in the BRL/USD exchange rate. As a result, manufacturers lifted their selling prices to the least extent in 15 months.

December data showed an overall decline in manufacturing jobs across Brazil, ending a two-month sequence of employment expansion. Anecdotal evidence indicated that hiring efforts at some firms were offset by cost-reduction initiatives at other companies. The overall pace of contraction was only slight, however.

Elsewhere, there was a softer decline in outstanding workloads and another deterioration in suppliers' delivery times during December.

Business sentiment was little-changed from November's series peak. Confidence in the new government, anticipations of greater market shares and investment plans were among the factors underpinning optimism of output growth over the coming 12 months.

COMMENT

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

"The positive takeaways from December's readings are the accelerated growth of production, further increases in input purchasing and a supportive domestic market that is boosting new business wins. This domestic upswing compensated for disappointing export opportunities. Nevertheless, manufacturing appears to be moving in an upward trajectory as we head into the new year with a new government."

"Apart from the underlying growth picture, emphasis remains on the employment trend. On this score, the survey shows a renewed decline in jobs, with companies still cautious towards their outlays. Recent moderations in input price inflation should help ease the pressure on manufacturers' costs and boost payroll numbers in the coming months if this surge in demand continues."

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.

December 2018 data were collected 5-14 December 2018.

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.