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IHS MARKIT BRAZIL MANUFACTURING PMI®

Factory production remains in expansion mode as new orders increase further

KEY FINDINGS

Fourth successive rise in output and order books

Employment returns to growth territory

Input cost inflation softens from September's peak

Ongoing growth of new work continued to feed through to output, whilst lifting manufacturing employment for the first time in three months. These improvements boosted the PMI to its joint-highest figure since April and were accompanied by cooling inflationary pressures as well as sustained business optimism.

At 51.1 in October, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) signalled strengthening business conditions for the fourth month running. Moreover, rising from 50.9 in September, the headline index was at its joint-highest mark in six months (on par with August).

The launch of new products and continuous improvements in demand translated into new order growth in October. The upturn was, however, only slight and eased since September. Concurrently, exports declined further with a number of panellists citing fewer volumes of new work from Argentina.

At the same time, production rose only marginally as political uncertainty, subdued household consumption and the elections restricted output growth in October. Nonetheless, the upturn was the fourth in as many months.

Brazilian goods producers hired additional staff at the start of the four quarter amid efforts to boost production. The rise in workforce numbers was only slight, but the quickest since March.

Mild increases in new work coupled with job creation led to a further decline in outstanding business. Despite being solid, the depletion in backlogs was the weakest in the current

Manufacturing PMI
sa, >50 = improvement since previous month



four-month sequence of reduction.

Currency weakness continued to drive input costs higher as the price of imported materials became costlier. The overall rate of inflation moderated from September's peak, but was among the sharpest in the survey history.

Some firms passed additional increases in cost burdens to their clients, but others refrained from hiking prices due to a competitive environment. The rise in charges was the slowest in six months.

Brazilian manufacturers remained optimistic that output will be higher in a year's time. Sentiment was supported by beliefs of demand growth, gains in market shares, investment intentions and the end of the elections. Nevertheless, worries about the high level of unemployment and economic uncertainty weighed on confidence which was at a three-month low.

Inventories of both inputs and finished items decreased moderately in October. The former was associated with shortages of materials at vendors, efforts to free up cashflow and lower input purchasing.

Indeed buying levels contracted in October, albeit only slightly. Meanwhile, suppliers' delivery times lengthened to a greater extent than at the end of the third quarter.

COMMENT

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

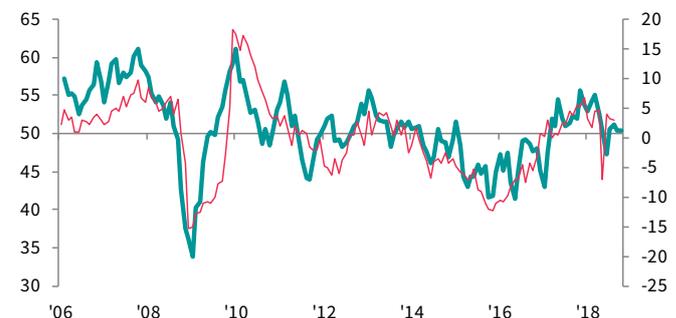
"Output growth in the Brazilian manufacturing sector was sustained in October, but the upturn was once again hindered by political uncertainty and tamed consumer confidence.

"A weaker external environment, particularly in neighbouring country Argentina, added to the sluggish performance as factories endured a second successive drop in export sales. But, domestic demand was sufficiently strong to offset this and total order books expanded further.

"After a positive start to the year, manufacturing growth has faded rapidly in the run up to the elections. With the votes now over firms will hope to see a more stable economic and political environment, which can potentially revive growth in Latin America's largest economy."

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.

October 2018 data were collected 12-24 October 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.