The coronavirus disease 2019 (COVID-19) pandemic and efforts to prevent the spread of the virus had a severe impact on the Brazilian manufacturing sector in April, particularly with regards to output and new orders which fell at record rates. Accordingly, firms scaled back employment and purchasing activity sharply, while business confidence slumped.

Despite steeply falling demand across the sector, inflationary pressures remained marked amid currency weakness. Both input costs and output prices rose at above-average rates. The headline seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) fell sharply to 36.0 in April, down from 48.4 in March. The reading signalled a substantial deterioration in business conditions in the sector, and one that was the steepest since the survey began in February 2006. The previous record decline had been at the height of the global financial crisis in January 2009.

Record contractions were seen with regard to both output and new orders at the start of the second quarter, with company closures and other restrictions brought in to try and prevent the spread of the virus combining with a steep decline in demand. The impact of COVID-19 in markets around the world meant that new export orders also contracted at a substantial pace.

Manufacturers responded to falling demand by cutting employment and purchasing activity. Staffing levels decreased at the sharpest pace since June 2016, while the reduction in input buying was a new survey record. Some respondents indicated that employment had been lowered as part of cost cutting efforts.

Input prices continued to increase at a sharp pace that was faster than the series average, with firms mainly linking higher input costs to currency weakness. In turn, firms raised their selling prices markedly.

Supply-chain disruption remained a key feature of the COVID-19 pandemic, with supplier shutdowns and material shortages mentioned by panellists. Lead times lengthened to the second-greatest extent in the survey so far. Meanwhile, firms were generally reluctant to hold inventories given the fall in demand. As a result, stocks of both purchases and finished goods declined.

Finally, business sentiment fell sharply for the second month running and was at a 49-month low. While some firms expect a return to growth of new business and output once the worst of the pandemic has been brought under control, there were mounting concerns around the length of time it would take for conditions to return to normal.
COMMENT

Commenting on the PMI data, Andrew Harker, Economics Director at IHS Markit said:

“The April PMI data show the sharp and sudden contraction the Brazilian manufacturing sector has fallen into following the COVID-19 outbreak. Output and new orders plummeted in the latest survey period, with the downturn even more severe than the global financial crisis and the worst since the survey began more than 14 years ago.

“As if the situation wasn’t bad enough, firms are also being hit by rising costs amid weakness of the real against the US dollar, forcing them to raise selling prices despite severe falls in demand. Confidence that a swift rebound will be recorded is draining away as firms begin to foresee a long, hard road ahead.”

CONTACT

IHS Markit
Andrew Harker  Katherine Smith
Economics Director  Public Relations
T: +44-1491-461-016  T: +1 (781) 301-9311
andrew.harker@ihsmarkit.com  katherine.smith@ihsmarkit.com

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 data were collected 07-23 April 2020.

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

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