News Release

Embargoed until 1000 Sao Paulo (1300 UTC) 1 July 2019

IHS MARKIT BRAZIL MANUFACTURING PMI®

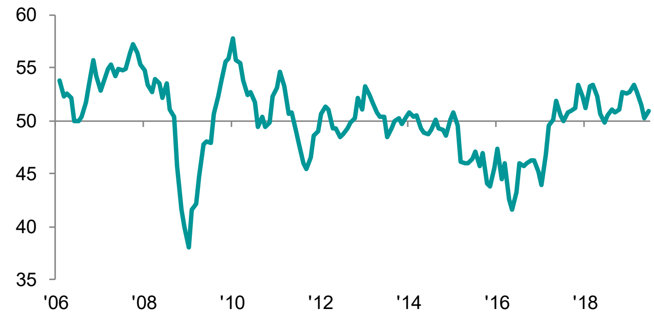
New order growth reinstated in June

KEY FINDINGS

Renewed rise in sales boosts output growth

Firms lift input purchasing amid efforts to rebuild stocks

Sentiment improves, but jobs fall again



The health of the Brazilian manufacturing industry strengthened in June, after improving only fractionally during May. A renewed increase in new work gave additional impetus to output growth, lifted business sentiment and promoted input purchasing. On a less upbeat tone, exports contracted at the sharpest pace in nearly two-and-a-half years and there were back-to-back cuts to employment. Also, charge inflation reached an eight-month high as firms sought to protect margins amid a sharp rise in cost burdens.

Rising from 50.2 in May to 51.0 in June, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) signalled a stronger improvement in operating conditions across the sector. However, relatively weak readings throughout the second quarter of 2019 meant that the latest three-month average was the lowest since the third quarter of 2018.

Capital goods was the brightest spot in June, outperforming the intermediate and consumer goods sub-sectors regarding production, sales and input purchasing. Whereas intermediate goods firms registered growth of all aforementioned measures, contractions were evident among consumer goods companies.

Aggregate manufacturing output increased amid reports of sales growth and productivity gains. The pace of expansion accelerated from May, but was the second-slowest since last October.

June saw a renewed increase in new work intakes, after growth came to a halt in May. Firms indicated that demand conditions improved at the end of the second quarter. Data suggested that the domestic market was the key source of sales growth, as exports contracted at the fastest rate in 29 months.

To fulfil order obligations and build inventory reserves, goods producers scaled up their quantities of purchases in June. The upturn in input buying followed a contraction in May.

Suppliers were comfortably able to accommodate for the rise in input demand, as signalled by shorter lead times on purchased materials. Subsequently, manufacturers' pre-production stocks increased further.

Business sentiment improved from May's 19-month low, with companies expecting new contract wins, product diversification and structural reforms to aid output growth in the coming 12 months.

Input costs increased again, which firms commonly linked to US dollar appreciation making imported materials costlier. The rate of inflation remained sharp, despite easing to a three-month low.

To keep a lid on costs, firms further lowered headcounts and lifted their output charges. The rate of charge inflation climbed to an eight-month high. Despite back-to-back contractions in employment, companies were still able to reduce their backlogs of work. The fall in work-in-hand was the fastest in 29 months.

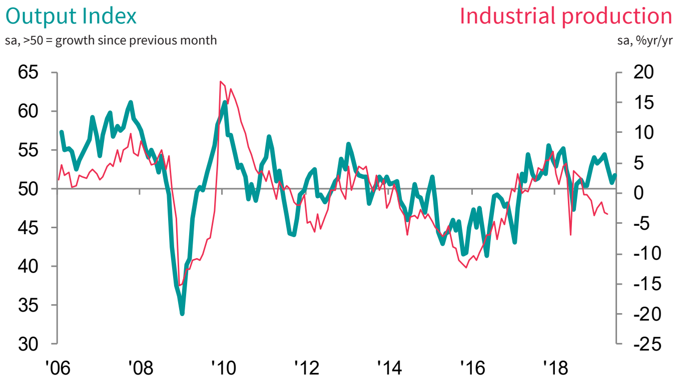
COMMENT

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

"There was a mild improvement in growth of Brazilian manufacturing output during June, after a considerable slowdown in May. The news brings some relief to policymakers as the industrial sector as a whole continues to suffer from the Brumadinho mining disaster.

"Renewed increases in demand for intermediate and capital goods at the end of the second quarter offset the downturn in sales of consumer goods. Underlying data indicated that the domestic market was the key source of growth, as aggregate manufacturing exports dipped at the quickest rate in close to two-and-a-half years.

"A second successive drop in manufacturing employment shows that the labour market continues to tread water. Progress in the near term will likely be tepid, as a sharp and accelerated fall in backlogs of work suggests that firms still have excess capacity to lift output without needing to create jobs."



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.

June 2019 data were collected 12-21 June 2019.

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

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About PMI

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.

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