

IHS MARKIT BRAZIL MANUFACTURING PMI®

PMI improves in May but remains deep in contraction territory

KEY FINDINGS

Severe falls in output and new orders sustained

Job losses mount and purchasing activity reduced at record pace

Inflationary pressures intensify

Data were collected 12-21 May 2020.

Brazil's manufacturing economy again contracted at a severe rate during May as the coronavirus disease 2019 (COVID-19) pandemic weighed on activity. Despite easing on the record rates seen during April, companies again signalled severe contractions in output and new orders, leading to a survey-record contraction in purchasing activity. Job losses continued to mount at a notable rate.

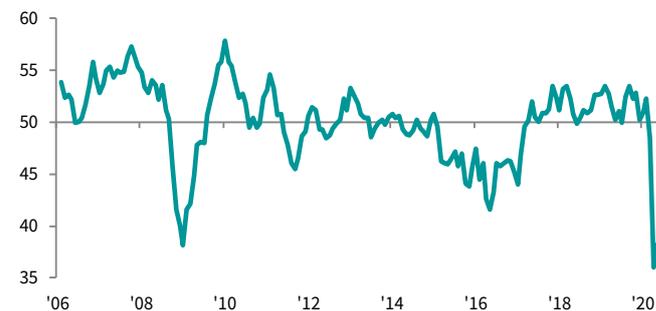
Prices data meanwhile showed another steep increase in input costs, largely thanks to unfavourable currency movements. Despite facing considerable contractions in demand, firms chose to raise their own output charges markedly.

April's seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) rose on April's 36.0 to a reach a level of 38.3 in May. Despite the improvement, the PMI continued to signal a largely unprecedented deterioration in the health of the sector and has now posted below the 50.0 no-change mark for three months in succession.

Ongoing falls in output and new orders continued to weigh heavily on the PMI during May. Whilst weaker than April's survey records, rates of decline remained considerable in each case. Firms continued to attribute contractions to the restrictions on economic activity related to suppressing the COVID-19 outbreak. Similar factors led to another substantial reduction in new export orders.

Faced with the ongoing deteriorating trend in output and

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

new orders, companies remained firmly in retrenchment mode during May. Purchasing activity was reduced at the fastest rate in the survey history, whilst job losses continued to mount. There were reports that the latest severe fall in staffing levels in part reflected efforts to control costs.

Bought inputs continued to increase in price at a considerable pace. Firms reported that US dollar-denominated good prices were again markedly higher. Firms responded by raising their own charges sharply despite deteriorating demand and rising competition.

Shutdowns and logistical challenges related to measures designed to contain COVID-19 continued to lead to considerable supply-side delays in May. Average lead times deteriorated to the second-greatest degree in the survey history. This led, alongside a general desire to match production and consumption levels, to a deterioration in inventories of both inputs and finished goods.

Finally, confidence about the year ahead improved markedly from April's 49-month low during May. Companies indicated some optimism that once COVID-19 had been brought under control there would be a recovery in output and demand. Some firms however are concerned of a prolonged global downturn due to the pandemic.

COMMENT

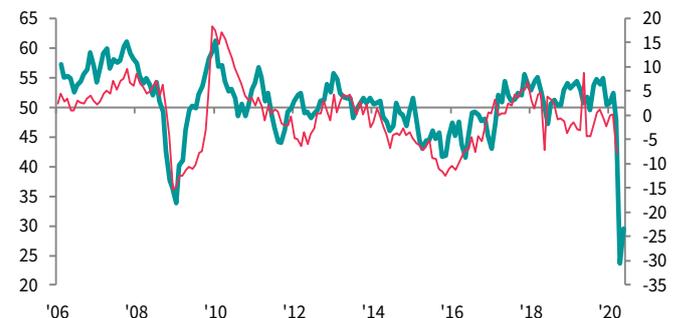
Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

"May's survey indicated that Brazil's manufacturing sector remained under intense pressure. Although easing since the previous month, rates of contraction in output and new work were again severe, meaning manufacturers remained firmly in retrenchment mode with job losses mounting and purchasing activity cut a new survey-record rate."

"Adding to the woes of firms was another considerable increase in input costs, with US dollar denominated goods reported to be rising in price. A number of firms saw little choice but to try and offset these higher costs by raising their own charges, although dwindling demand and competitive pressures placed some restriction on pricing power."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, IBGE.

CONTACT

IHS Markit

Paul Smith
Economics Director
T: +44-1491-461-038
paul.smith@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 (781) 301-9311
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.

May data were collected 12-21 May 2020.

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.

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