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

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 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."