Operating conditions in Brazil’s manufacturing economy worsened marginally at the start of the third quarter, with production down for the first time since June 2018. Firms trimmed expenditure by lowering headcounts and input purchasing in the face of financial difficulties and subdued demand. Moreover, business confidence fell to a 21-month low. The positive takeaways from the latest PMI results came from cooling inflation rates and sustained growth of new work.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers’ Index™ (PMI®) posted below the crucial 50.0 threshold that separates growth from contraction for the first time in 13 months. At 49.9 in July, down from 51.0 in June, the latest figure was indicative of a fractional deterioration in the health of the sector.

Production decreased at the start of the third quarter, ending a 12-month sequence of expansion. Firms that reported lower output mentioned weak underlying demand as well as political and economic troubles.

New work intakes, on the other hand, increased for the second straight month. The pace of expansion was modest and broadly similar to June. Underlying data suggested sales gains in the domestic market, as exports declined for the eighth consecutive month and at a solid pace. According to monitored firms, demand from emerging markets weakened, with Argentina and Paraguay mentioned in particular.

Job shedding was recorded for the third month running in July, with the contraction the most pronounced since mid-2017. Goods producers commented on cashflow problems, outsourcing, resignations and weak demand.

A reduction in input buying was also registered in July, following a return to growth in June. In many cases, panellists indicated a lack of requirement for additional raw materials and semi-finished items.

Subsequently, input holdings decreased at the start of the third quarter. The fall was the first since January, albeit modest. Meanwhile, holdings of finished goods rose due to weak sales and the clearing of backlogs.

Input costs continued to increase, which survey members attributed to currency weakness. That said, inflation moderated to a six-month low in July, curbed by lower diesel prices and the excess supply of some items.

Concurrently, factory gate charges rose at the slowest pace in 22 months. While some firms hiked their fees to protect margins, others lowered them amid competitive conditions and sales-boosting initiatives.

Worries about tax burdens, elevated unemployment and challenging economic conditions restricted business sentiment in July. The overall degree of optimism was at a 21-month low. However, some firms were confident that public reforms and an economic recovery can lead to output growth in the year ahead.
Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

“Operating conditions in Brazil’s manufacturing industry remained volatile, with the PMI gaining momentum in June then falling in July. Pressures in the sector stemmed from a combination of economic and political issues, subdued domestic demand, faltering exports, spare capacity and cost-reduction measures.

“We saw some divergences between the PMI and official industrial production data in recent months. In early-2019, the PMI pointed to solid output growth, while official data highlighted contraction. The latter reflected the dam collapse in Brumadinho at the start of the year, with mining excluded from the manufacturing survey. The jump in year-on-year growth of industrial output in May was due to base effects from a weak May 2018, when Brazil was paralysed by a truckers’ strike.

“Although factories recorded sales growth in July, the upturn remained weak and failed to lift production, input purchasing and jobs. This suggests that businesses are dubious of a sustained recovery in demand and foresee further challenges ahead. Indeed, optimism slid to its lowest since October 2017.”

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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.

July 2019 data were collected 12-24 July 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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