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IHS Markit Brazil Manufacturing PMI®

Manufacturing sector growth cools in January

Key findings

Sales and output rise at marked, albeit softer rates

New export orders broadly stagnate

Inflationary pressures remain elevated

Data were collected 12-22 January 2021.

The health of the Brazilian manufacturing industry improved further in January, but growth has lost momentum in each month since peaking last October. New work intakes and production rose at marked rates that were nevertheless the weakest since mid-2020, while growth of international sales came to a standstill. Job creation softened to the weakest in the current seven-month sequence of expansion as firms became increasingly cautious about their outlays.

The rate of input cost inflation remained sharper than any seen prior to the coronavirus disease 2019 (COVID-19) pandemic, amid lingering challenges facing global logistics firms. As a consequence, Brazilian goods producers continued to lift their own charges.

At 56.5 in January, the IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) signalled a strong improvement in operating conditions across the sector. However the latest reading fell from 61.5 in December to the lowest since last June.

New orders – the largest sub-component of the PMI – remained in expansion territory, but firms signalled the weakest upturn in sales for seven months. While some companies linked higher new work intakes to clients bringing purchases forward due to announcements of upcoming price rises, others suggested that growth was curbed by the pandemic and weaker demand for their goods.

New export orders broadly stagnated in January, ending a four-month sequence of expansion. Capital goods was the only segment to record growth, with contractions evident at

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Brazil Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"While the news that the Brazilian manufacturing sector continued to expand in January is welcome, the fact that growth lost momentum yet again is somewhat concerning. The key worry is a notable slowdown in growth of new orders, a key leading indicator of future hiring and production."

"Supply-side bottlenecks greatly impacted on the performance of Brazilian manufacturers in January. Output rose at the slowest pace for seven months as firms had insufficient inputs to lift production as desired. At the same time, efforts to ramp-up safety stocks were cancelled out by another steep increase in delivery times. The shipping crisis also led to a sharp upturn in input costs."

"This is a detrimental outcome for companies that are already struggling with their finances, leaving them little room to refrain from price hikes in an effort to boost sales. Although the latest data showed a sharp rise in output prices, the gap between rates of inflation for costs and charges – the widest for five months – clearly shows that firms continue to absorb most of the additional cost burden."

"As a result of cashflow management, hiring was restricted in January. Employment expanded only slightly and at the weakest pace in the current seven-month sequence of job creation."

both consumer and intermediate goods producers.

Manufacturing output continued to increase at the start of 2021, taking the current stretch of expansion to eight months. Despite being marked, the latest rise was the slowest since last June. Anecdotal evidence suggested that growth was restricted by capacity constraints, raw material scarcity and the COVID-19 crisis.

Amid reports of worldwide raw material shortages, input costs increased during January. The rate of inflation eased to a six-month low, but was nevertheless sharper than any recorded prior to the COVID-19 pandemic.

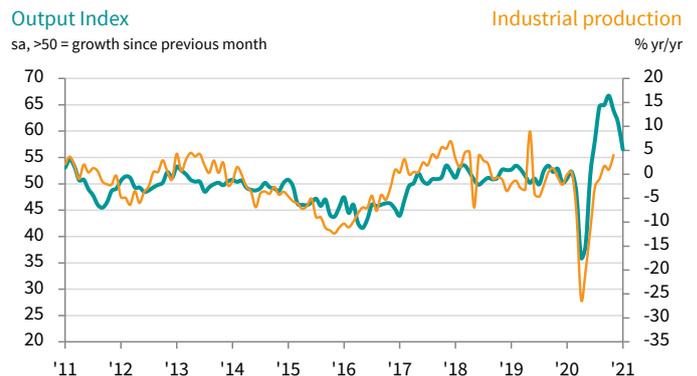
Confronted with rising expenses, firms increased their output prices again in January. The rate of charge inflation was sharp, although the slowest in six months and well below that seen for input costs.

Comments from panellists indicated that efforts to control expenses limited hiring in January. The latest rise in employment was the weakest in the current seven-month sequence of job creation.

January data highlighted the slowest upturn in quantity of purchases for seven months. Still, the pace of growth was marked and outpaced its long-run average. Some firms linked the rise to efforts to lift safety stocks.

Inventories of purchases decreased in January amid reports of supply shortages and delivery delays. Indeed, average lead times lengthened at a pace unprecedented prior to last August.

Brazilian manufacturers retained an optimistic view that output will expand in the coming 12 months. Confidence was supported by the roll-out of COVID-19 vaccines, new product launches and marketing efforts.



Sources: IHS Markit, IBGE.

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Survey 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.

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

Survey dates and history

Data were collected 12-22 January 2021.

Survey data were first collected February 2006.

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