

Embargoed until 1000 Sao Paulo (1300 UTC) 2 January 2020

IHS MARKIT BRAZIL MANUFACTURING PMI®

Manufacturing sector growth cools at year end

KEY FINDINGS

PMI slides to five-month low

Output and new orders increase at softer rates

Employment back in contraction

Although Brazil's manufacturing industry remained in expansion mode at the end of 2019, rates of increase in new orders and output eased noticeably. December also saw a return to job shedding and the steepest fall in exports in over a decade. Input cost inflation ticked higher, due to real depreciation, but firms were reluctant to pass this on to clients amid subdued demand conditions. On the positive side, business confidence strengthened to an 11-month high.

Posting 50.2 in December, down from 52.9 in November, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to the weakest improvement in business conditions in the current five-month period of growth.

Capital goods acted as the main drag in the headline figure, posting the first deterioration for a year amid solid contractions in sales and production. Growth was sustained in the consumer and intermediate goods categories, where both output and new work expanded in December.

Aggregate manufacturing output increased for the fifth straight month, albeit at the weakest rate over this period. Some companies suggested that higher sales boosted production, but others lowered output due to weaker demand for their goods.

Total new business expanded fractionally in December, with the upturn the weakest in the current seven-month run of growth. The rise was, in part, curbed by lower sales to international markets. New export orders decreased at the steepest pace since early-2009. Anecdotal evidence pointed

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

to weak demand from clients in Latin America, particularly Argentina and Chile.

The lack of new projects led goods producers to focus on the completion of their outstanding business. Backlogs contracted at a sharp rate that was the quickest since mid-year.

Spare capacity, in turn, prevented companies from creating jobs in December. Manufacturing employment declined for the first time since July, albeit slightly. Firms also reduced input buying, thereby ending a four-month sequence of expansion.

With quantities of purchases contracting, input stocks declined to the greatest extent in one-and-a-half years. Similarly, inventories of finished goods fell at the quickest pace in two years.

Elsewhere, there was a faster increase in cost burdens, with a number of panellists blaming the rise on real depreciation (against the US dollar). Data, however, showed a lack of pricing power among goods producers as selling charges rose at a slight rate that was the slowest since August.

Businesses foresee better times ahead, with optimism improving to an 11-month high. Confidence stemmed from predictions of new business wins, higher investment, a favourable economic climate and marketing efforts.

COMMENT

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

"The latest PMI results show a muted end to the year for Brazilian manufacturers, with subdued sales bringing about a marginal and slower rise in production as well as renewed job shedding.

"The disappointing readings seen in December acted to partially cancel out strong gains in October and November, with the performance of the sector over the final quarter of 2019 broadly in line with that noted in the third quarter. This indicates that the sector has only made a marginal contribution to economic growth in Q4.

"The main weak spot in December was capital goods, where both output and new orders contracted at the steepest rates since September 2018.

"Export markets failed to offer any impetus to sales. New orders from abroad dipped to the greatest extent in a decade, dampened by lower demand from Latin American nations.

"Given this distinct lack of progress, the one positive came from optimistic growth projections. Manufacturers were at their most upbeat in just under a year, with production growth expected to be boosted by higher sales, investment, marketing initiatives and better economic conditions."

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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.

December 2019 data were collected 5-16 December 2019.

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

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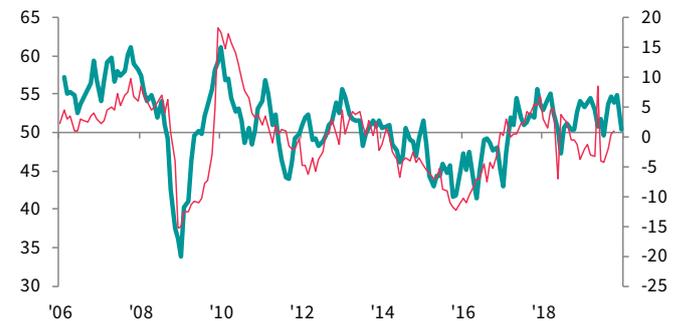
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Output Index

sa, >50 = growth since previous month

Industrial production

sa, %ytr/yr



Source: IHS Markit, IBGE.

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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. To learn more go to ihsmarkit.com/products/pmi.html.