

## Markit Brazil Manufacturing PMI™

### Sharper contractions in output and order books

#### Key findings:

- Both new orders and production dip at quickest rates in six months...
- ...driving further steep reductions in buying levels and employment
- Cost inflation gathers speed

Data collected from 6-15 December



The health of Brazil's manufacturing industry deteriorated in December, as the ongoing economic recession continued to weigh on the sector's performance. A steeper fall in new work resulted in sharp reductions of production, quantities of purchases and staffing levels. Meanwhile, cost inflation hit a four-month high, leading to a stronger increase in factory gate charges.

The headline **Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI™)** dipped from 46.2 in November to a six-month low of 45.2 in December, highlighting a sharper deterioration in operating performance across the sector. The downward movement in the PMI reflected quicker falls in new business inflows and production.

Amid reports of weak underlying demand, a difficult

economic climate and competitive pressures, the level of incoming new work received by Brazilian goods producers dropped to the greatest extent in six months during December. Demand from external markets also deteriorated, with new export orders declining at a sharp and accelerated pace.

As a consequence, businesses continued to scale back production volumes. Moreover, output decreased at the fastest rate since June, with reductions noted in each of the three broad areas of manufacturing. As was the case for order books, the downturn in activity was most pronounced at capital goods companies.

Falling workloads translated into further reductions in manufacturing employment, thereby marking a 22-month sequence of continuous job shedding. The steepest decline in payroll numbers was registered at capital goods producers.

In spite of the ongoing reduction in employment, Brazilian manufacturers had sufficient resources to work on existing projects, as highlighted by another decline in outstanding business. The rate of backlog depletion eased to the slowest since April, but remained sharp overall.

Companies maintained a preference for lower stock levels in December, with both pre- and post-production inventories down sharply over the month. The former declined in line with a further contraction in buying levels. According to surveyed firms, fewer output requirements and cash flow issues were the main reasons behind the latest drop in quantities of purchases.

Average delivery times facing Brazilian manufacturers increased during December, amid reports of low stock levels at vendors and efforts to optimise deliveries.

Finally, cost inflation reached a four-month high in December, in turn leading to a stronger increase in selling prices. Panellists often indicated that the weaker currency drove up prices paid for imported items, while attempts to protect margins

encouraged some firms to raise their charges.

**Comment:**

Commenting on the Brazilian Manufacturing PMI™ survey data, **Pollyanna De Lima**, economist at IHS Markit and author of the report, said:

*“The accelerated decline in new orders seen at the year-end adds to concerns over Brazil’s manufacturing industry, with both domestic and export demand showing sharp weakness. The outlook heading into 2017 appears gloomy amid various significant headwinds facing the Brazilian economy, including deteriorating labour market conditions, weak consumption, budget cuts, political disturbance and subdued demand in external markets.”*

-Ends-

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**Notes to Editors:**

The Brazil Manufacturing *PMI*<sup>™</sup> (*Purchasing Managers' Index*<sup>™</sup>) is produced by Markit. The report features original survey data collected from a representative panel of around 400 companies based in the Brazilian manufacturing sector. The panel is stratified by GDP and company workforce size.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

The Manufacturing *Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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**About PMI**

*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) surveys are now available for over 30 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 [www.markit.com/product/pmi](http://www.markit.com/product/pmi).

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