

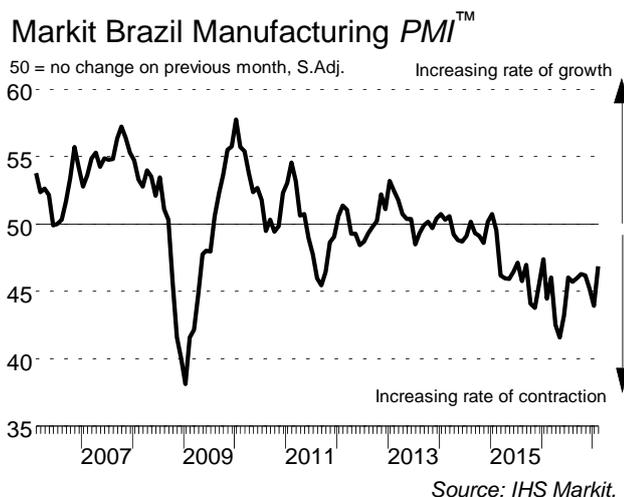
Markit Brazil Manufacturing PMI™

Brazil's manufacturing downturn extends to February

Key findings:

- Solid, although slower, contractions in new orders and output
- Selling prices rise at quickest rate since mid-2016
- Degree of optimism highest in series' history

Data collected February 10-21



February data indicated that operating conditions in Brazil's manufacturing industry remained challenging, with sluggish demand causing further declines in order books and output. Worries regarding working capital reportedly led firms to reduce buying levels and shed jobs again. With regards to prices, goods producers raised their charges in response to another sharp increase in input costs. Encouragingly, confidence improved on the back of hopes of an economic turnaround.

At 46.9 in February, the seasonally adjusted **Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI™)** highlighted a further deterioration in the health of the goods-producing sector, the twenty-fifth in as many months. Up from 44.0 in January, however, the latest reading was at a 13-month high. The upward movement in the PMI

largely reflected softer reductions in new orders, output and employment.

According to panellists, weak demand resulted in another contraction in incoming new work during February. The rate of reduction eased to the slowest since last November, but was solid overall. Concurrently, new business from abroad decreased at the joint-weakest pace in the current nine-month sequence of downturn.

Manufacturing production continued to fall, though the pace of reduction moderated to the weakest since November. Whereas consumer and intermediate goods output dipped again, growth was recorded for the first time in over two years across the capital goods category.

Cashflow difficulties coupled with fewer production requirements fed through to the labour market, with manufacturing jobs falling for the twenty-fourth month running in February. Despite easing to the weakest in over one year, the rate of job losses remained sharp. Nonetheless, data implied that businesses had sufficient resources to work on existing projects, as backlogs declined again.

Concerns towards the lack of working capital led some firms to reduce buying levels in February. Quantity of purchases decreased markedly, but at the softest rate in five months. Meanwhile, stock levels in Brazil's manufacturing economy continued to fall. Pre-production inventories dipped at a sharp pace that was, however, the slowest since January 2016. Holdings of finished goods declined at the weakest rate in five months.

On the price front, average input costs increased sharply, amid reports of higher prices for metals, chemicals, plastics, textiles, paper and petrol. As a consequence, manufacturers raised their selling prices further, with charge inflation at an eight-month high.

Finally, 73% of manufacturers forecast output growth over the course of the next year, with hopes of an economic rebound boosting confidence. In

fact, the level of positive sentiment was the highest recorded in the series near five-year history.

Comment:

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

“At first glimpse, February’s PMI data remained disappointing. The headline index posted below the neutral threshold for the twenty-fifth successive month, reflecting further declines in new work and output. The challenging economic environment combined with weak underlying demand and cashflow issues among firms continued to hamper purchasing activity and hurt manufacturing jobs.

“However, rates of contraction in production, order books, exports and employment all softened since January. Furthermore, capital goods output rose for the first time in over two years and business confidence across the manufacturing sector as a whole climbed to a five-year peak.

“As for the outlook, the data still point to challenging times ahead, with IHS Markit expecting Brazil’s economy to stabilize in 2017, after a long-lived and deep recession, and then resume growth in 2018.”

-Ends-

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Notes to Editors:

The Brazil Manufacturing *PMI*[™] (*Purchasing Managers' Index*[™]) 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.

The Manufacturing *Purchasing Managers' Index*[™] (*PMI*[™]) 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*[™] (*PMI*[™]) 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[™] (*PMI*[™]) 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.

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