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IHS MARKIT BRAZIL MANUFACTURING PMI®

Manufacturers ramp up production as new order growth hits seven-month high

KEY FINDINGS

Marked and accelerated upturn in new business

Strongest expansion in output since March

Business sentiment climbs to series record

Factories in Brazil continued to gain steam in November, registering the strongest expansion in output for eight months as inflows of new work strengthened. With demand growth picking up pace, companies hired additional workers and purchased more inputs for use in the production process. In turn, this led to the first rise in stocks of raw materials and semi-finished items in close to four years. Moreover, business confidence improved to the highest seen in the series history, while a relatively stronger real translated into softer increases in input costs and output charges.

Rising from 51.1 in October to 52.7 in November, the seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to the strongest improvement in the health of the sector for eight months.

Total new orders increased at the quickest pace since April amid reports of stronger domestic and international demand. Furthermore, growth was seen in each of the three monitored sub-sectors and led by consumer goods.

New export orders displayed a renewed increase midway through the final quarter of 2018, after decreases were seen in September and October.

Companies scaled up production and hired additional workers, both to the greatest extent since March. At the same time, quantities of purchases increased, following contractions in each of the previous three months. Panellists suggested that the upturn reflect inventory-replenishment initiatives and forecasts of sales growth.

Manufacturing PMI
sa, >50 = improvement since previous month



Indeed, holdings of raw materials and semi-finished materials increased during November. Although slight overall, the upturn was the first seen in almost four years. On the other hand, holdings of finished goods continued to fall as manufacturers fulfilled existing and new contracts.

Goods producers indicated that recent improvements in the BRL translated into a softer increase in cost burdens. Firms still noted higher prices for items such as chemicals, fuel, metals and textiles, but mentioned a reduction in cardboard, caustic soda, glycerol, solvents, silicone and thread costs. The rate of inflation was at a 16-month low.

Likewise, a softer rise in selling prices was registered in November, one that was the least marked since October 2017. Meanwhile, backlogs of work decreased as a reflection of increased efforts to deliver items on time.

On the supply side, there was a further increase in delivery times, which panellists linked to stronger demand for inputs and low stock levels at vendors.

Manufacturers' sentiment improved to a series record in November on the back of merger opportunities, investment intentions and a change in government. Around 77% of firms were confident that output will expand in the coming 12 months, with only 1% of companies pessimistic.

COMMENT

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

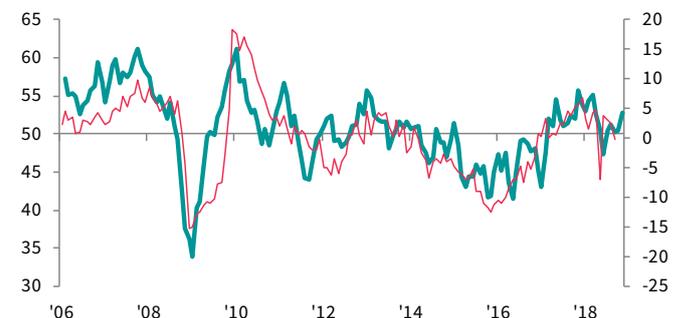
"November saw Brazil's manufacturing industry spring back into life and record the best upturn in factory output since March. Although the domestic market provided the main impetus to new order inflows, demand from overseas at least returned to growth territory.

"Strengthening demand and cooling input price inflation are having a positive impact on the cost side, with factories able to ramp up their charges for the sixteenth month running. At the same time, however, the pressure to keep up pace with input buying growth filtered through to suppliers and resulted in an ongoing lengthening of delivery times.

"To complete the good news, business sentiment climbed to the highest seen in the series history as firms welcomed a change in government. Producers intend to increase investments and foresee merger opportunities as well as sales growth in the year ahead."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, IBGE.

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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.

November 2018 data were collected 12-23 November 2018.

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

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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.