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IHS MARKIT BRAZIL MANUFACTURING PMI®

Marginal growth signalled in September as price pressures intensify

KEY FINDINGS

New order book growth hits highest in five months

Exports in contrast fall at notable rate

Stronger US dollar drives costs up at record rate

Manufacturing operating conditions improved for a third successive month during September, underpinned by the strongest gain in new orders for the past five months. In contrast, growth in output was the lowest since June's fall, whilst exports declined to the greatest degree since the start of 2017 as difficulties in many emerging markets, especially Argentina, undermined demand. Price pressures also intensified on the back of a stronger US dollar, with the measure of input prices hitting its highest level in the survey history.

The seasonally adjusted IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) remained above the 50.0 no-change mark during September. However, with the PMI registering 50.9, down from 51.1 in August, the net improvement in operating conditions signalled by the index was marginal.

The headline index was primarily supported by rising levels of incoming new work. Latest data showed the strongest increase for five months, although growth remained relatively modest. Moreover, gains were centred on the domestic market as export sales fell for the third time in the past five months. September's figures indicated that new export business declined to the greatest degree since January 2017. There were many reports that challenging conditions in emerging markets, especially in Argentina, had adversely affected export volumes.

Output levels continued to increase during September, although growth was again marginal and the lowest in the

Manufacturing PMI
sa, >50 = improvement since previous month



current three month sequence of expansion. Nonetheless, manufacturers had sufficient levels of production to clear existing workloads, as signalled by a further notable decline in backlogs.

Staffing levels were also lowered marginally during September, the second successive month that a fall has been registered. Companies that cut jobs signalled cost concerns, especially at a time when prices were rising sharply. Indeed, September's survey showed the strongest net increase in input prices recorded by the survey since data were first collected in February 2006. Inflation was overwhelmingly linked to US dollar strength and the associated unfavourable currency movement against the Brazilian real.

In response, companies raised their own charges to a strong degree. Output prices increased at the second greatest rate in the survey history (surpassed only by February 2016).

Meanwhile, purchasing activity was little moved in the latest survey period, whilst stocks of both inputs and finished goods were broadly unchanged. Average lead times for the delivery of inputs lengthened further, albeit to the weakest degree in eight months.

Finally, confidence about the future improved to its highest level since March 2018 during September. Of the 71% of panellists that are anticipating growth, many expect to benefit from firmer demand and higher sales.

COMMENT

Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

"September's survey showed some further welcome growth for Brazil's manufacturing sector, but underneath the headline PMI figure lurked some worrying developments.

"Whilst new order growth improved, exposure to challenging conditions in emerging markets, especially neighbouring Argentina, showed up in a notable fall in export sales. There was also a hint of excess capacity in the sector, as evidenced by a decline in backlogs and further slight cut to employment.

"But most eye-catching was the latest surge in prices as the strong US dollar continues to place uncomfortable cost pressures on manufacturers. Input prices rose at the strongest rate in the survey history according to latest data, leaving firms with little choice but to pass on these higher costs to clients."

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.

September 2018 data were collected 12-21 September 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.