

Markit Brazil Manufacturing PMI™

PMI at seven-month low in January

Key findings:

- New orders, output and buying levels all dip at faster rates
- Employment continues to fall sharply
- Input cost and output charge inflation at five- and seven-month highs

Data collected from 12-24 January



Source: IHS Markit.

Business conditions in Brazil's manufacturing industry deteriorated in January, as has been the case throughout the past two years. The downturn was seen across the board, with order books, output, new export orders, buying levels, stocks and backlogs down in the consumer, intermediate and investment goods categories. Meanwhile, inflationary pressures intensified.

At a seven-month low of 44.0 in January, down from 45.2 in December, the seasonally adjusted Markit Brazil Manufacturing *Purchasing Managers' Index™* (PMI™) pointed to a sharper deterioration in the health of the sector.

New orders dipped at the quickest pace since last May, amid reports of weaker underlying demand and the ongoing economic crisis. Subsequently, manufacturers scaled down production for the

twenty-fourth month running in January, with the rate of reduction the fastest since May 2016. As was the case for order books, the sharpest drop in output was noted in the consumer goods category.

New export orders continued to fall in the opening month of 2017. Reductions were evident in each of the three broad areas of manufacturing, with the sharpest contraction recorded at capital goods producers.

Fewer output requirements combined with ongoing efforts to reduce costs led manufacturers to shed jobs again in January. Despite easing since December, the rate of job losses remained steep. The quickest drop in payroll numbers was registered in the investment goods category.

Cashflow issues and lower workloads reportedly led to a decline in buying levels at the beginning of the first quarter. Furthermore, the rate of contraction was among the fastest since the global financial crisis.

Subsequently, stocks of purchases decreased again, with around 24% of panellists noting lower holdings of raw materials and semi-finished goods. Post-production inventories also fell in January, and at the quickest pace in the survey's 11-year history.

January data pointed to an increasing degree of spare capacity among manufacturers in Brazil, with backlogs of work falling at the fastest rate in six months.

Higher prices for a wide range of raw materials resulted in a further increase in average input costs, with the rate of inflation at a five-month high in January. Consequently, manufacturers' selling prices were raised again. The rate of charge inflation picked up to the quickest since last June and surpassed its long-run average.

Manufacturers remained upbeat regarding the prospects for output in the year ahead. Moreover, the degree of optimism was the strongest since August 2016. Hopes of an economic turnaround

boosted confidence in January.

Comment:

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

“The situation in Brazil’s manufacturing industry worsened further in the opening month of 2017, with reductions in output, order books and buying levels all gathering pace. The sector has now been stuck in contraction for two years, and there is no clear indication of an imminent turnaround. With margins being squeezed by weak revenues and steep cost increases, companies had no option but to lower payroll numbers again. While recent cuts to the benchmark rate are expected to support the economy, future monetary policy decisions will likely be constrained by a pick-up in inflationary pressures, with PMI price indicators on the rise in January.”

-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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