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IHS Markit Brazil Manufacturing PMI®

Employment growth hits survey peak in October

Key findings

Sharp rise in new orders boosts employment growth

Rates of input cost and output charge inflation reach survey records

Pressure on supply chains causes delivery delays

Data were collected 12-23 October 2020.

Growth in the Brazilian manufacturing industry gathered momentum in October, with the headline PMI climbing to a new high amid a quicker expansion in output and a survey-record rise in employment. Despite easing from September, the upturn in sales was the third-fastest in the survey history. Meanwhile, strong demand for inputs and a lack of available materials translated into delivery delays and a record increase in input costs.

The IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) rose from 64.9 in September to 66.7 in October, highlighting the strongest monthly improvement in the health of the sector since data collection started in February 2006. The upward movement in the PMI reflected sharper growth of output and employment as well as a steeper increase in suppliers' delivery times. All three monitored sub-sectors enjoyed an improvement in operating conditions, led by capital goods.

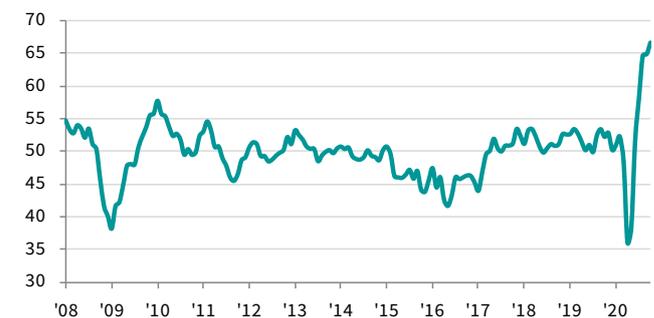
Companies continued to report growth of new work intakes in October, with the overall rate of expansion remaining sharp. Despite easing from September, the increase was the third-quickest in the survey history. Firms indicated that improved demand conditions, the reopening of some businesses and restocking efforts at their clients supported the latest rise in sales.

International demand for Brazilian goods also strengthened in October, with new export orders rising to the greatest extent since data collection started nearly 15 years ago. Panel members indicated that the weaker real gave them a

continued...

Brazil Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"It's encouraging to see participants of the Brazilian Manufacturing PMI survey reporting a further improvement in operating conditions during October."

"Monthly rates of expansion for output, new orders, exports and employment were at or near record highs, indicating that the sector continued to recover from the historically steep contractions induced by the COVID-19 outbreak earlier in the year."

"In particular, the upturn in jobs bodes well for the wider economy and may lead to improved consumption trends in coming months."

"While currency depreciation helped to improve the competitiveness of local firms in international markets, it pushed up prices paid for imported items. This, coupled with raw material shortages, saw manufacturers' expenses rise at the fastest pace since data collection started."

"With demand for their goods being elevated, pricing power was sustained and companies were able to lift their own fees to protect profit margins."

competitive edge over other manufacturers.

In response to ongoing increases in factory orders, companies lifted production volumes further. Output rose at the second-fastest pace in the survey history, behind only that seen in August.

Amid reports of robust demand, capacity expansion plans and the replacement of staff laid off at the height of the COVID-19 outbreak, firms hired extra workers in October. The rate of job creation was sharp and the strongest since data collection started in early-2006.

Despite the increase in payroll numbers, companies saw their outstanding business pile up in October. Moreover, backlogs of work expanded to the greatest extent in the history of the survey. According to panel members, the rise in unfinished work reflected shortages of key raw materials.

Companies purchased additional inputs in October, and did so at a near-record pace, but an increase in suppliers' delivery times meant that stocks of purchases declined. Firms reported difficulties in acquiring a wide range of inputs, including chemicals, metals, packaging, paper, plastics and textiles.

Efforts to fulfil contract obligations led firms to dig into their inventories of finished goods during October, which fell at one of the fastest rates seen.

Raw material shortages and real depreciation reportedly caused another increase in input costs. Moreover, the rate of inflation reached a record high. Equally, output prices rose at a survey-record pace.

Optimism towards the year-ahead outlook for production was sustained in October. Capital investment, expansion into new markets and new product releases were among the reasons that supported positive sentiment.

Survey 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.

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

Survey dates and history

Data were collected 12-23 October 2020.

Survey data were first collected February 2006.

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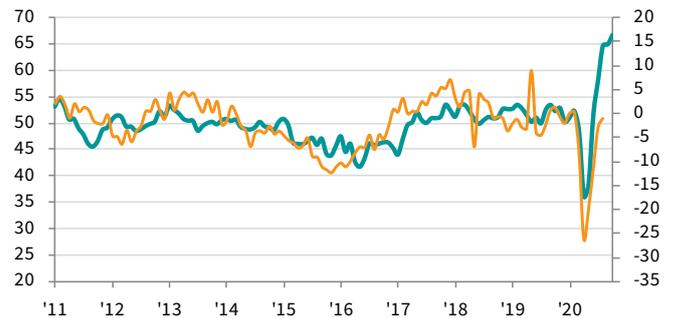
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Output Index

sa, >50 = growth since previous month

Industrial production

% yr/yr



Sources: IHS Markit, IBGE.

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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. ihsmarkit.com/products/pmi.html