News Release

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S&P Global Brazil Manufacturing PMI®

February sees slower contractions in factory orders and production

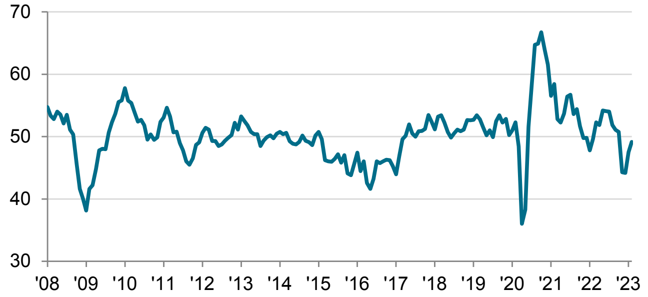
Key findings

Downturn in new orders moderates

Weakest fall in output for four months

Rates of input cost and output charge inflation broadly stable

Brazil Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 08-21 February 2023.

Brazil's manufacturing industry was stuck in contraction in February, though rates of reduction in output and sales eased since January. Nevertheless, a sustained deterioration in demand prompted firms to lower headcounts, trim buying levels and deplete input holdings. Meanwhile, despite slipping further, business sentiment remained positive and strong by historical standards. On the price front, there was a solid increase in input costs. The rate of inflation was solid, albeit little-changed from January and below its long-run average. Concurrently, there was a slight upturn in selling charges that was broadly similar to those seen in the prior two months.

Posting 49.2 in February, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index™ (PMI®) was in contraction territory (below 50.0) for the fourth month running. That said, rising from 47.5 in January, the headline figure indicated the slowest rate of reduction over this period.

There was a softer decline in intakes of new business in February. Several firms attributed lower sales to weak demand conditions and client uncertainty surrounding the economy. Concurrently, some companies indicated an increase in order books which they associated with improved demand for specific items. The overall rate of reduction was slight and the weakest in the current five-month period of downturn.

Similarly, production fell at a marginal rate that was the weakest in the current four-month sequence of reduction. Where a contraction was reported, panellists cited weak sales and public policy concerns.

February data pointed to another sharp deterioration in external demand for Brazilian goods. Despite easing to the slowest in four months, the pace of reduction remained sharp. Firms remarked on challenges pricing competitively in international markets.

Comment

Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said:

"While Brazilian manufacturers reported some challenges in February, it seems like the sector is heading towards stabilisation following a post-election distress to operating conditions.

"Factory orders fell only slightly, and some firms even signalled better demand for certain items. In fact, if we look at the PMI survey's granular data we can see a recovery in sales of consumer and investment goods.

"Moreover, output and employment decreased only marginally, with the downturn in the latter centered on intermediate goods makers.

"One particular difficulty firms encountered was in their ability to price competitively in international markets, which resulted in another substantial contraction in new export orders.

"A combination of subdued demand conditions, improvements in supply chains and falling global prices for some raw materials helped curtail inflation in February. Input costs and output charges rose at similar rates to January that remained below their long-run averages."

Brazilian manufacturers indicated that raw material costs increased further in February, which coupled with real depreciation caused another upturn in average input costs. However, steadying from January, the rate of inflation was among the weakest recorded in over five-and-a-half years. As has been the case since last December, output prices rose only slightly in February. Thus, the rate of inflation remained below its long-run average.

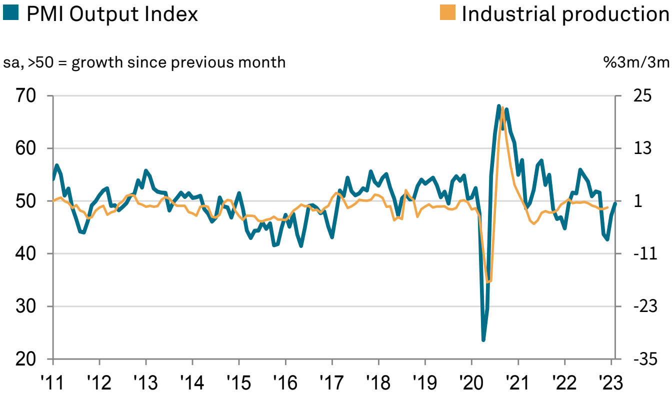
Shortages of new work prevented companies from purchasing additional inputs midway through the first quarter. Buying levels fell solidly, but at the weakest pace in four months. In turn, subdued input demand and improved stock availability among suppliers led to shorter delivery times in February.

Reduced buying levels subsequently resulted in another fall in input stocks. The latest contraction was the fourth in successive months, though slight and broadly similar to that seen in January.

Conversely, holdings of finished items continued to increase in February. Where growth was reported, monitored firms mentioned lower sales and delayed shipments.

February data continued to show a lack of pressure on the capacity of manufacturers, as outstanding business volumes decreased further. The rate of backlog depletion was among the sharpest on record. Parallel to this, there was another round of job shedding. However, employment fell only fractionally overall.

Manufacturers were optimistic that demand would improve and interest rates fall, supporting output growth. Advertising, investment and new product launches also underpinned positive forecasts. Yet, concerns surrounding competitive pressures and a lack of disposable income among households restricted confidence.



Sources: S&P Global, IBGE.

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Survey methodology

The S&P Global Brazil Manufacturing PMI® is compiled by S&P Global 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. Data collection began in February 2006.

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.

About S&P Global

About PMI

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.

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