News Release

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S&P Global Brazil Manufacturing PMI®

Manufacturing recovery extends to July, price pressures recede

Key findings

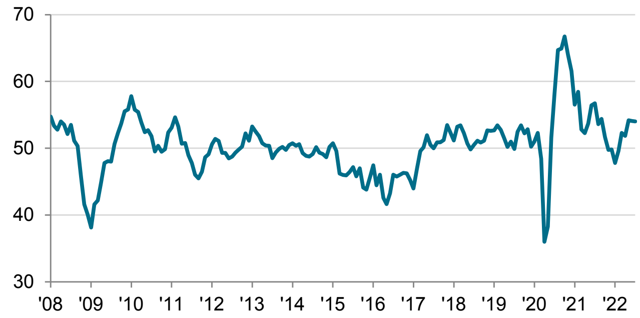
New orders and production rise further, but at slower rates

Business confidence and job creation improve

Softer increases in input costs and output charges

Brazil Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-22 July 2022.

PMI® data for July pointed to a combination of softer economic growth and weaker inflationary pressures across Brazil's manufacturing industry. Factory orders and production rose at the weakest rates in three months, while spending trends were mixed. Input buying expanded at a softer and only slight pace, whereas the rate of job creation climbed to its highest in over a year. Supporting the upturn in employment was an improvement in business confidence. On the price front, input costs increased at the slowest pace since May 2020, with charge inflation softening to a five-month low.

At 54.0 in July, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index™ (PMI®) was broadly similar to June (54.1) and indicated a solid improvement in the health of the sector. Consumer goods led the recovery, followed by intermediate and then capital goods.

Manufacturers suggested that favourable demand conditions supported another increase in new orders at the start of the third quarter. That said, the overall rate of expansion was modest and the slowest in three months.

Underlying data indicated that the external market acted as a drag on overall sales, with international orders falling for the fifth month running and at the fastest pace since the start of the year.

Amid reports of greater order book volumes and productivity enhancements, there was a further increase in Brazilian-manufactured output during July. The pace of expansion eased to a three-month low, but was marked and above its long-run average. Anecdotal evidence indicated that the slowdown stemmed from raw material scarcity and subdued demand for a few goods.

Manufacturers were strongly upbeat of a rise in production in the coming 12 months from present levels. The degree of positivity strengthened to a three-month high and was

Comment

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

“The PMI results for July pointed to a robust manufacturing sector performance across Brazil. Output growth has lost some momentum, but remained historically elevated and the pace of job creation picked up speed for the fourth straight month as business confidence ticked up.

"Companies saw growth of order books ease for the second straight month in July, in part restrained by weakness in international markets. External sales decreased for the fifth month in a row, and at the sharpest pace since the start of the year.

"It was particularly welcoming to see input cost inflation retreating to a 26-month low, a sign that inflation has likely passed its peak. Charge inflation followed a similar path, easing in July to its lowest since February.

"The brightest area of the manufacturing industry, consumer goods, was where inflationary pressures were most acute. Capital goods was the only segment to post an outright fall in new business, and also recorded the slowest increase in output charges."

elevated by historical standards. Optimism reflected business expansion tactics, product diversification, planned advertising and anticipations of further improvements in demand conditions.

Owing to existing vacancies being filled and staffing levels being readjusted to fulfil rising demand, there was another increase in manufacturing sector employment in July. Moreover, the rate of job creation was sharp and the strongest since mid-2021.

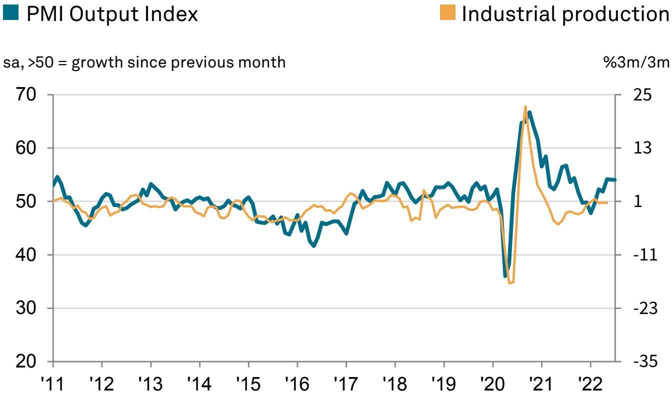
July data indicated that input costs continued to increase, with firms listing currency depreciation (BRL/USD), higher interest rates, the war in Ukraine and logistical problems as the key sources of price pressures. That said, the overall rate of inflation eased noticeably to a 26-month low.

Goods producers continued to transfer cost increases through to clients by lifting their own selling prices again. However, the rate of charge inflation softened to a five-month low.

Although goods producers continued to purchase additional inputs in July, they did so to the least extent in the current three-month sequence of expansion. The slowdown was reportedly curbed by challenges sourcing raw materials.

Indeed, there was a sharper deterioration in vendor performance during July, one that was the most pronounced in six months.

Concurrently, input inventories broadly stagnated in July, following two successive months of accumulation. A similar development was seen for holdings of manufactured products as some companies linked growth to efforts to avoid stockouts and others reported a reduction due to a lack of components to finish products.



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 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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