News Release

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S&P Global Brazil Manufacturing PMI®

Factory orders and employment expand solidly in June

Key findings

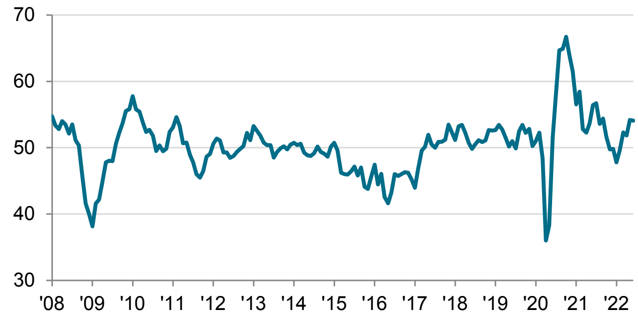
Ongoing improvements in sales boost job creation

Output rises for fourth month running

Soaring costs drive charge inflation higher

Brazil Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 13-23 June 2022.

Manufacturing growth in Brazil was sustained at the end of the second quarter as companies responded to rising sales with further increases in employment, input purchasing and production. Demand strength was centred on the domestic market, with international orders declining again as firms struggled to price competitively in external markets due to elevated cost pressures. Indeed, the rate of charge inflation quickened to a three-month high in June and far outpaced its long-run average.

At 54.1 in June, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index™ (PMI®) was little-changed from May (54.2) and signalled a continuation of the manufacturing sector recovery. Also, the latest reading rounded off a strong performance for the second quarter as a whole. The PMI averaged 53.4, up from 49.9 in the opening quarter of the year and at its highest since Q3 2021.

Brazilian manufacturers signalled a fourth successive monthly increase in new work intakes, amid reports of ongoing improvements in demand conditions. Despite easing from May, the rate of expansion remained solid. Growth was reportedly curbed by weaker global demand and inflationary pressures.

In response to sustained improvements in overall demand, manufacturers continued to hire additional staff in June. The latest increase in employment was the fourth in consecutive months and the strongest since last October.

The combination of rising new orders and expanded capacities underpinned a further increase in factory output during June. The upturn was marked, despite slowing from May.

Goods producers signalled another sharp increase in purchasing costs at the end of the second quarter. Anecdotal evidence indicated that price pressures stemmed from energy price volatility, export restrictions, global shortages of inputs, US dollar strength and the war in Ukraine. Although

Comment

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

"The manufacturing sector performed well in June, remaining resilient to numerous challenges such as stubbornly high inflation, aggressive hikes to interest rates, the cost-of-living crisis, supply-chain bottlenecks and the war in Ukraine.

"The domestic market provided the main impetus to sustained growth of factory orders, which in turn supported further job creation and the lifting of production volumes. Companies also continued to purchase additional inputs amid a considerable lag between buying and actually acquiring raw materials.

"There was little-movement in the rate of input price inflation and the fastest increase in output charges for three months as companies continued to pass on soaring costs to their clients. Some firms felt like pricing decisions somewhat restricted sales, particularly damaging international competitiveness.

"To some extent, acute price pressures and rising interest rates dampened business confidence as firms assessed their negative impacts on consumption and investment. Yet, manufacturers expect the favourable domestic demand environment to be sustained, which coupled with capacity expansion efforts, technological advancements, efficiency gains and new product releases are forecast to support production growth in the year ahead."

softer than in May, the rate of inflation remained historically steep. In fact, almost half of all monitored companies (49%) reported having paid more for inputs.

Once again, additional cost burdens were transferred to clients in June as companies sought to protect margins from cost increases. The overall rate of charge inflation accelerated to a three-month high and was well above its long-run average.

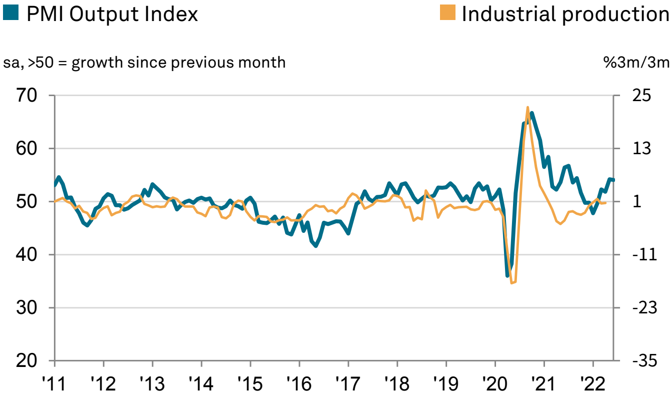
Restricted spending among external clients and ongoing price hikes caused a further decline in new export orders at Brazilian manufacturers. The latest fall was the fourth in consecutive months, albeit slight and the slowest since March.

On the stocks front, firms noted back-to-back increases in input holdings but broadly unchanged levels of inventories of finished goods. Where input stocks rose, companies indicated the arrival of previously-purchased items.

To safeguard against future stockouts, companies continued to purchase additional inputs during June. The increase was the second in successive months, but growth eased from May due to elevated price pressures.

Supply-chain issues intensified in June, with Brazilian manufacturers recording a sharper deterioration in vendor performance. Average lead times on inputs lengthened to the greatest extent since January.

Although Brazilian manufacturers remained strongly confident of a rise in output over the course of the coming 12 months, overall sentiment slipped to a three-month low in June. Inflation and interest rate concerns dampened optimism, according to anecdotal evidence.



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.

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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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