

IHS Markit Brazil Manufacturing PMI®

Manufacturing sector back in contraction as factory orders and production fall

Key findings

PMI posts below neutral level for first time since May 2020

Fastest reductions in output and sales for a year-and-a-half

Input cost inflation quickens in November

Data were collected 12-23 November 2021.

November data indicated a deterioration in the health of Brazil's manufacturing sector, as companies scaled back production volumes in line with a marked decline in sales. The downturn was often attributed to lingering supply-chain disruptions, intense price pressures, market uncertainty and rising interest rates. Employment growth eased as a consequence and firms trimmed buying levels. On the price front, both input costs and output charges continued to increase at substantial rates that were unseen in the survey history prior to the onset of COVID-19.

Registering 49.8 in November, down from 51.7 in October, the IHS Markit Brazil Manufacturing Purchasing Managers' Index™ (PMI®) pointed to the first deterioration in the health of the sector in one-and-a-half years. The rate of contraction was, however, fractional overall.

November data pointed to back-to-back declines in manufacturing output, with the rate of reduction accelerating to the fastest since May 2020. The drop was associated with raw material scarcity, inflationary pressures and subdued demand conditions.

According to survey participants, uncertainty, rising interest rates and higher prices curbed demand for their goods in November. Sales decreased for the second month in a row and at the quickest pace in a year-and-a-half.

Underlying data showed that capital goods producers recorded the sharpest declines in new business and output out of the three monitored sub-sectors.

Amid reports of global shortages of raw materials, rising

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:

"The resilience of the Brazilian manufacturing sector recovery was tested once again in November, with firms struggling to secure new work due to elevated output charges and rising interest rates. As a result, companies scaled back production volumes at the fastest rate in a year-and-a-half."

"While firms had been able to comfortably transfer rising cost burdens to clients in recent months and still secure a healthy amount of new work, mounting inflationary pressures weighed considerably on the performance of the sector as we head towards the year end, a situation that is likely to prevail in the near-term."

"Lingering troubles in supply chains, the main culprit behind the disappointing results, meant that firms had insufficient materials to lift production. With prices for a number of items rising constantly, input buying was trimmed as a result."

"Efforts to keep a lid on expenses also dampened job creation in November, with a fall in employment expected in coming months should demand fail to rebound."

"Many will hope that recent efforts by the central bank to curb inflation via monetary policy tightening will be successful, but firms expressed concerns that growth prospects could be harmed by rising interest rates. Also, the PMI Input Costs Index climbed to a five-month high in November."

transportations costs and a weak currency (against the US dollar), prices paid by Brazilian manufacturers continued to increase in November. The rate of inflation accelerated to a five-month high and was above any seen prior to the COVID-19 outbreak (data collection started in February 2006).

Additional cost burdens continued to be transferred to clients, as seen by a further increase in factory gate charges. Despite easing from October, the rate of inflation surpassed those seen before August 2020.

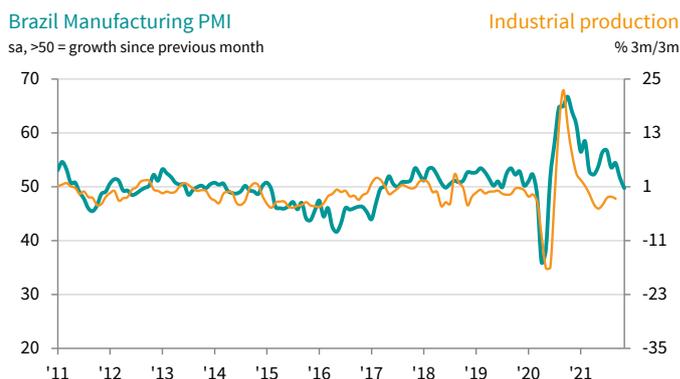
Rising input costs, combined with subdued sales, led manufacturers to reduce buying levels in November. The latest decline was solid and ended a 16-month sequence of growth.

Previous attempts to prevent stockouts meant that input inventories increased in November. However, the rate of accumulation was mild and the slowest since May as lingering delivery delays somewhat restricted growth of stocks.

Indeed, average lead times on inputs lengthened considerably in November, and to the greatest extent in five months. Once again, the deterioration in vendor performance was attributed to a lack of raw material availability and problems with international shipping.

Although manufacturing jobs rose in November, the rate of growth eased to the weakest in the current eight-month sequence of expansion. The slowdown owed to cost-reduction initiatives and weak sales, according to panellists.

Business optimism bounced back during November. Despite several firms expressing concerns over inflationary pressures, rising borrowing costs and political uncertainty, demand was expected to rebound in the year ahead and support output.



Sources: IHS Markit, IBGE.

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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 November 2021.

Survey data were first collected February 2006.

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