

News Release

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S&P Global Brazil Manufacturing PMI[®]

Manufacturing growth gathers momentum in May

Key findings

Production and factory orders rise at stronger rates

Renewed upturn in input buying

Inflationary pressures intensify

The health of Brazil's manufacturing industry continued to improve in May, with the latest results showing stronger growth of new orders and output as well as a renewed expansion in purchasing activity. Business confidence remained firmly in positive territory, supporting stronger job creation across the sector. At the same time, energy price volatility, global shortages of inputs, China's lockdown and the war in Ukraine all led to substantial increases in both input costs and output charges.

Rising from 51.8 in April to 54.2 in May, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index[™] (PMI[®]) pointed to the strongest improvement in operating conditions since last September. The headline figure was boosted by all of its sub-components, particularly new orders, output and employment.

Amid reports of strengthening demand conditions and new product launches, factory orders rose for the third month running in May. Moreover, the rate of expansion was solid and the quickest since July 2021.

With sales growth gathering pace, manufacturers scaled up production again in May. The latest expansion in output was marked and the strongest in ten months.

Ongoing improvements in sales, greater production requirements and stockpiling efforts underpinned a renewed expansion in input purchasing among Brazilian manufacturers. The rate of growth was solid and the fastest in eight months.

Goods producers continued to report difficulties receiving input deliveries in May, with delays attributed to the lockdown in China, the war in Ukraine and global shortages of raw materials. Moreover, vendor performance worsened to a greater extent than in April.

Mismatches between input supply and demand, as well as energy price volatility, China's lockdown and the Russia-

Brazil Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 May 2022.

Comment

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

"The manufacturing industry bounced back from the slowdown in growth seen at the start of the second quarter, with the headline PMI improving to an eight-month high thanks to stronger increases in new orders, production and employment."

"A faster decline in backlogs of work points to spare capacity among Brazilian manufacturers, and also highlights the fact that growth of new orders continues to lag behind production. Yet, goods producers hired additional workers in May — to the greatest extent in seven months — in anticipation of further improvements in sales. Indeed, the prevailing sentiment for the medium-term outlook is positive, with close to 71% of manufacturers forecasting higher output levels over the next 12 months."

"May data showed mounting inflationary pressures in the Brazilian manufacturing industry, from global shortages of raw materials, COVID-19 lockdowns in China, energy price volatility and the war in Ukraine. Input costs rose at a sharper rate that was much higher than its long-run average, and goods producers passed the burden on to clients. Factory gate charges increased at sharp rate that was among the strongest in over 16 years of data collection."

PMI[®]

by S&P Global

Ukraine war all led to an intensification of cost pressures. Input prices rose at a sharp and accelerated rate that was well above its long-run average.

Subsequently, to protect margins, manufacturers increased their own selling prices in May. The overall rate of charge inflation was sharp, quicker than in April and much higher than its long-run average.

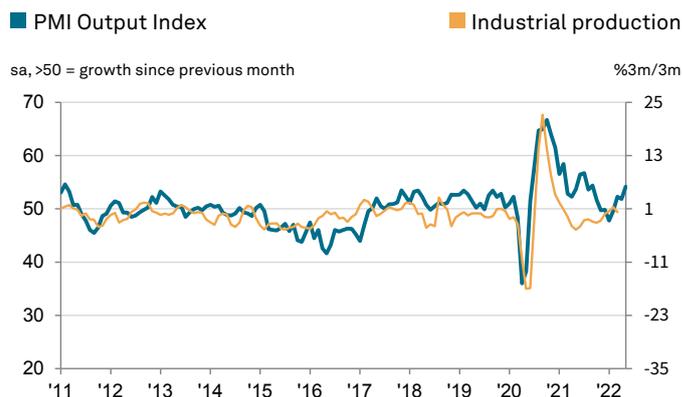
Looking ahead, manufacturers were strongly confident of a rise in output over the course of the coming 12 months. Some firms expect further improvements in sales and greater investment, while several others displayed intentions to launch new products and expand capacities.

Upbeat growth projections boosted job creation in May. Employment rose at a solid pace that was the fastest in seven months.

Goods producers made further inroads into their backlogs in May, with the current sequence of reduction extended to a year. Despite being modest overall, the rate of contraction in outstanding business was quicker than that seen in April.

Following a decline in the prior month, stocks of purchases rose halfway through the second quarter. Those companies that signalled an accumulation in inventories mentioned efforts to prevent stockouts and forecasts of sales growth. Although moderate, the pace of expansion was the strongest in 2022 so far.

Finally, the latest results showed another decline in international orders placed with Brazilian manufacturers. The fall was moderate, but the third in consecutive months. There were particular mentions of subdued demand from clients in South America.



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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