News Release

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S&P Global Brazil Manufacturing PMI®

Manufacturing downturn eases at start of 2023

Key findings

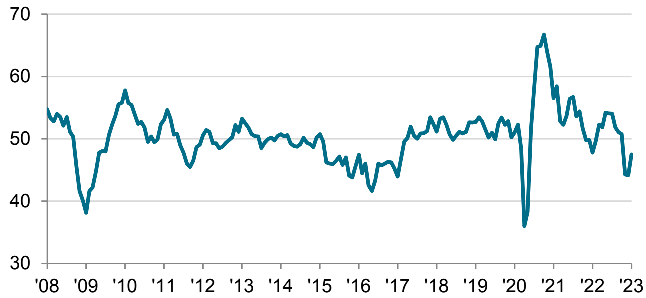
PMI at three-month high, but remains in contraction territory

Slower declines in factory orders and production

Cost inflation ticks higher

Brazil Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 January 2023.

January data showed another deterioration in the health of Brazil's manufacturing industry, albeit one that was softer than in December. There were slower contractions in new orders and production, while the downturn in international sales intensified. Firms continued to cut back on input buying and there was a mild round of job shedding. Business sentiment remained well inside positive territory.

Although cost inflation accelerated, the rate of increase was one of the slowest seen over the past four years. A modest and below-average rise in selling prices was recorded.

Rising from 44.2 in December to 47.5 in January, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index™ (PMI®) signalled the slowest deterioration in business conditions in the current three-month period of downturn. The rise in the headline figure mainly stemmed from slower reductions in new orders and output.

Goods producers indicated that weak demand, rising prices and fiscal policy uncertainty all dampened sales in January. The latest fall in new orders was the fourth in successive months, albeit the slowest since October.

Challenging economic conditions globally and recession fears reportedly restricted international sales in January, with some firms mentioning weaker demand from Latin America in particular. New export orders fell at a sharp rate that was among the fastest seen in the 17-year survey history.

Subdued underlying demand led firms to trim production volumes in January. Some panellists also reported the cancellation and postponement of existing orders. Output decreased at a solid pace that was nonetheless the slowest in the current three-month period of contraction.

Amid reports of higher prices for foodstuff, metals, plastics and some imported components, average cost burdens continued to increase in January. The rate of inflation picked up to a five-month high, but was one of the slowest seen for

Comment

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

"Brazil's current business environment remains difficult, with manufacturers encountering weak underlying demand and the postponement of existing projects due to an inflated market, high borrowing costs and public policy concerns.

"Goods producers again opted to trim output volumes, input purchasing and employment as they wait for a recovery in sales and focus on keeping expenses low.

"Some positives from the latest set of PMI data came from signs that rates of contraction are at least losing strength, with the exception of international sales which exhibited a particularly concerning drop that was among the sharpest in the 17-year survey history.

"Firms maintained an upbeat tone towards the year-ahead outlook, as they foresee a recovery in demand. There were also mentions that investment and new product releases should boost production over the course of 2023.

"One area to watch in the coming months is input prices, which started to gain traction after retreating around the turn of the year. For now, the rate of inflation remains substantially below most of those seen over the past four years. Similarly, charges are rising only mildly as companies continue to absorb most of their additional cost burdens in attempts to secure new work, shift excess stocks and handle competition."

PMI® by S&P Global

four years.

Output charge inflation was also contained in January. Some firms sought to pass on cost increases to their clients, but others offered discounts due to weak demand, competitive conditions and excess stocks.

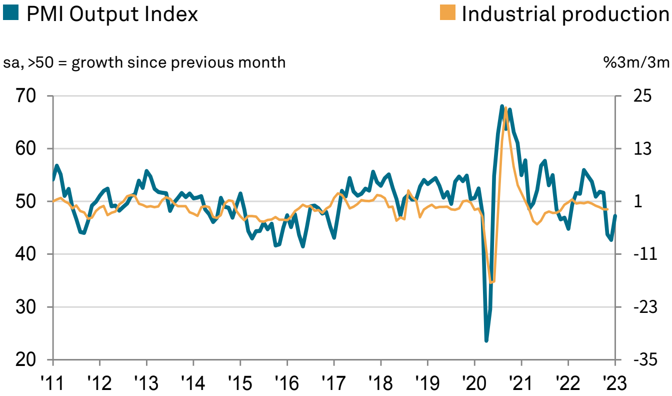
Falling sales coupled with concerns towards the current economic and political situations prevented firms from purchasing extra inputs in January. Buying levels decreased for the fourth month in a row and solidly, though at the slowest pace since last October.

Weak demand for inputs meant that suppliers had a greater availability of materials in stocks, according to monitored firms. In turn, average lead times shortened for the third consecutive month in January.

On the one hand, input stocks among manufacturers decreased in January. The fall was only slight, but took the current sequence of depletion to three months. On the other hand, inventories of finished goods rose owing to order cancellations and weak sales. The rate of accumulation was only marginal.

Subdued demand conditions, reduced production requirements and cost-cutting efforts led to further job shedding among manufacturers. The contraction was marginal, however, and the weakest in three months.

Forecasts of a recovery in demand, investment and new product launches underpinned optimism towards growth prospects. Although elevated by historical standards, the level of confidence slipped from December amid some concerns over public policy and high interest rates.



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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