News Release

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S&P Global Brazil Manufacturing PMI®

Brazilian manufacturing downturn remains severe in December

Key findings

Business conditions worsen to similar extent as in November

Production falls at quicker rate amid sharp decline in sales

Firms trim employment and input buying

Brazil Manufacturing PMI

sa, >50 = growth since previous month

Source: S&P Global.

Data were collected 06-16 December 2022.

Brazil's manufacturing sector ended 2022 on a weak footing, as a third successive fall in new business triggered the sharpest decline in production since May 2020. With clients either postponing or cancelling purchases amid fiscal and economic uncertainty, firms again reduced buying levels and trimmed headcounts. Subdued input demand in turn led to a record improvement in supplier delivery times. December data also showed a renewed, albeit moderate, increase in both input costs and output charges.

At 44.2 in December, the seasonally adjusted S&P Global Brazil Manufacturing Purchasing Managers' Index™ (PMI®) was little-changed from 44.3 in November and therefore signalled the second-fastest deterioration in the health of the sector since May 2020. Furthermore, the PMI average for the fourth quarter was the lowest since Q2 2020.

Goods producers scaled back production in December, owing to lower sales volumes. The fall was the second in consecutive months and the quickest in over two-and-a-half years.

Companies indicated that economic and public policy uncertainty dampened sales in December, with clients often cancelling or postponing purchases. Despite easing from November, the rate of contraction in was sharp and the second-fastest since May 2020.

International sales again weighed on overall new business. New export orders decreased to one of the greatest degrees seen since data collection started nearly 17 year ago. Companies reported subdued demand from Europe, Latin America and the US.

Ongoing declines in new orders resulted in another contraction in headcounts. Employment fell solidly, and at the fastest pace in two-and-a-half years.

Companies also trimmed input buying at the end of 2022, taking the current stretch of contraction to three months.

Comment

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

"The PMI survey shows us that clients and manufacturers remain anxious towards future public policy and the resiliency of the economy, with these concerns keeping the sector firmly in contraction territory during December. While sales were either cancelled or postponed, firms at least hoped that greater clarity in the coming months would underpin better growth prospects.

"That said, Brazilian companies were cautious with their expectations and focused on the here and now. With current sales and exports falling sharply, there were further cutbacks to production, input purchasing and employment. Their appetite to hold inventories also dissipated in December.

"In the prior two months, subdued input demand had triggered declines in overall purchasing prices, but there was a renewed increase at the end of the year as currency weakness made imported items costlier. Despite subdued demand conditions, firms hiked their own selling prices in December as cost burdens were shared with clients.

"For now, the rise in factory gate charges was moderate but any pick-up in cost inflation and subsequent increases to finished goods' fees could severely damage already-fragile demand."

PMI® by S&P Global

The rate of reduction was sharp and the second-quickest since May 2020.

Subdued input demand in turn alleviated any pressure on supplier capacities. Average lead times shortened for the second month in a row, and at a survey-peak pace.

Brazilian goods producers also signalled spare capacity among themselves, as evidenced by another decline in outstanding business. The fall was the nineteenth in as many months and one of the strongest in close to 17 years of data collection.

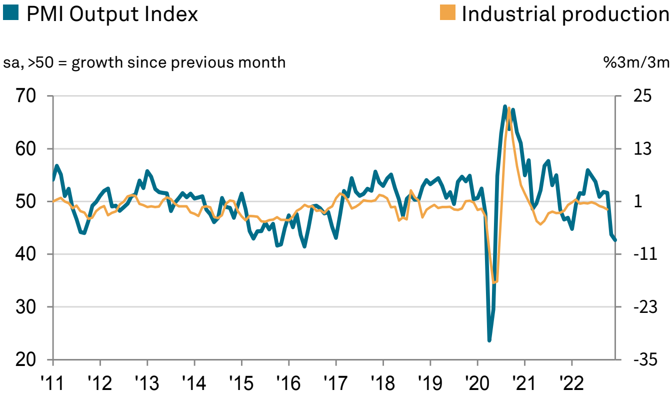
Elsewhere, there were back-to-back declines in input inventories during December. Moreover, the rate of depletion was solid and the quickest in two years. According to panel members, stocks were trimmed in line with demand weakness.

Holdings of finished products likewise decreased in December, ending a seven-month sequence of accumulation. Here too, the depletion was associated with subdued sales. However, the overall rate of reduction was only slight.

Real weakness, component shortages and rising prices for some items were cited as factors leading to a renewed increase in cost burdens. The upturn was modest in the context of historical data, but compared with declines in the prior two months.

Similarly, selling prices rose for the first time in three months, albeit moderately. Some firms sought to transfer cost increases to their clients, while others refrained from hiking their fees amid attempts to stimulate demand.

Finally, there was an improvement in business confidence in December as firms hoped that favourable public policies and international relations would bode well for growth prospects. Expansion plans, investment, product diversification and anticipation of higher sales also boosted optimism.



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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