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IHS Markit Brazil Business Outlook

Brazilian firms more upbeat towards business outlook

Key findings:

- Sentiment for business activity improves from June's recent low
- Investment intentions revised higher
- Employment expectations strengthen
- Profitability set to rise in the year ahead

Data collected October 11-28

Brazil is one of only three nations monitored by the Global Business Outlook surveys to see an improvement in sentiment during October, with levels of confidence towards output, profitability and employment the highest worldwide. Under such upbeat growth projections, companies have revised higher their spending plans for capital (capex) as well as research and development (R&D). At the same time, firms foresee stronger rates of inflation for staff and non-staff costs.

Rising from +47% in June to +55% in October, the business activity net balance highlights a strong degree of confidence towards the 12-month outlook for output. Moreover, the latest reading is broadly in line with the average over the ten-year survey history and contrasts with fading optimism in nine of the 12 nations for which comparable data are available. Brazilian manufacturing firms are more buoyant than their services counterparts, albeit sentiment is higher in both sectors when compared to mid-year.

The main reasons boosting optimism among private sector companies are hopes of better economic conditions, investment, financial stability, expanded market shares, partnerships, lower interest rates, tourism, product diversification and favourable public policies.

Brazil business activity expectations



Still, some companies see client default, dollar appreciation, US-China trade dispute, weakness in Argentina, competitive pressures, high unemployment, environmental problems and political troubles as threats to the business outlook.

Firms signal plans to expand capacity

In line with predictions of better economic conditions in the coming 12 months, Brazilian private sector companies intend to hire additional staff in the year ahead. Moreover, the employment net balance is up from June's one-year low of +23% to +29% in October. Sub-sector data indicate that goods producers are more likely to take on additional workers than service providers.

Capital spending plans have been revised higher in both the manufacturing and service sectors. The aggregate net balance for capex is in fact the joint-highest globally, matching that recorded in Russia.

October also sees an improvement in overall confidence for R&D. On this front, Brazil is placed third in the rankings, behind Ireland and Russia respectively. In the manufacturing industry, R&D optimism is the joint-strongest in over eight-and-a-half years.

Predictions of greater cost burdens set to trigger higher selling charges

Amid job creation plans, private sector companies foresee higher staff costs in the year ahead. Other operating expenses are also predicted to increase, with rates of inflation likely to be stronger in the manufacturing industry. To protect margins, firms plan to pass on to their clients at least part of the burden of these costs by raising their selling charges. Upward revisions to output price expectations are evident in the manufacturing and service sectors.

Corporate earnings anticipated to increase

With firms expecting to maintain pricing power in the year ahead, profitability is forecast to rise. The net balance of companies predicting earnings growth is up from +32% in June to +35% in October.

Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Principal Economist at IHS Markit, said:

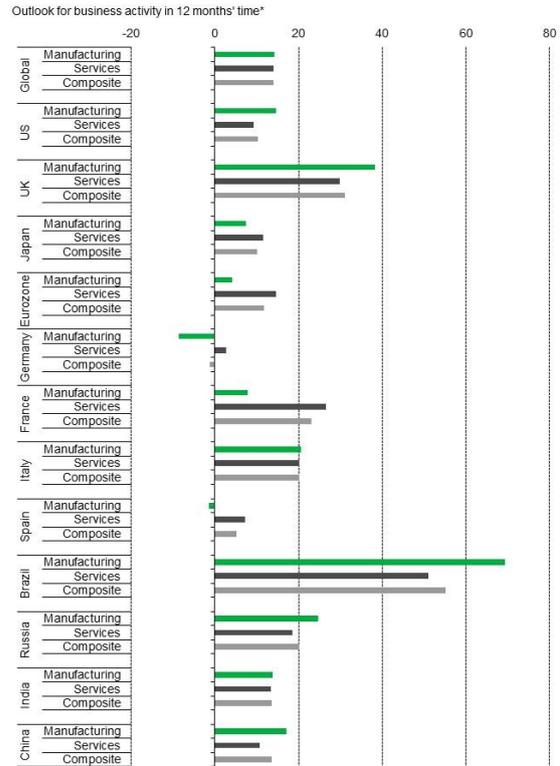
“It’s encouraging to see Brazilian companies stating many growth opportunities for the year ahead, particularly intentions to lift employment and investment. Most of these plans seem contingent on an improvement in demand and the approval of public policies such as the tax reform. While firms cited low interest rates as a potential growth driver, there were mentions of borrowing difficulties hampering investment. There were also concerns about the external environment, like problems in Argentina and the US-China trade dispute.”

“The improved trend in Brazilian optimism regarding output contrasts with fading sentiment in nine of the 12 countries for which Composite Business Outlook data are available, with confidence towards business activity, profitability and employment the highest worldwide.”

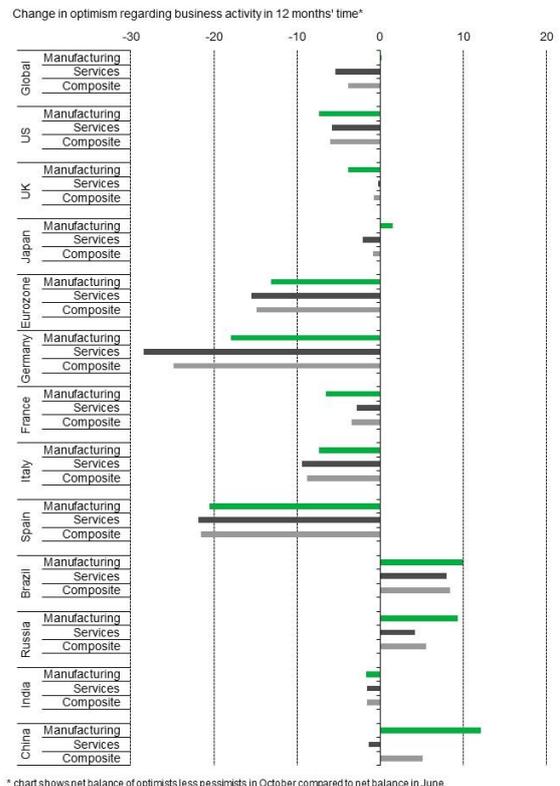
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 9 and 30.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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