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IHS Markit Brazil Business Outlook

Business confidence rebounds in October

Key findings:

- Outlook for business activity and profitability improves
- Sentiment towards employment and capital expenditure turns positive
- Firms forecast stronger increases in costs and selling prices

Data collected October 12-27

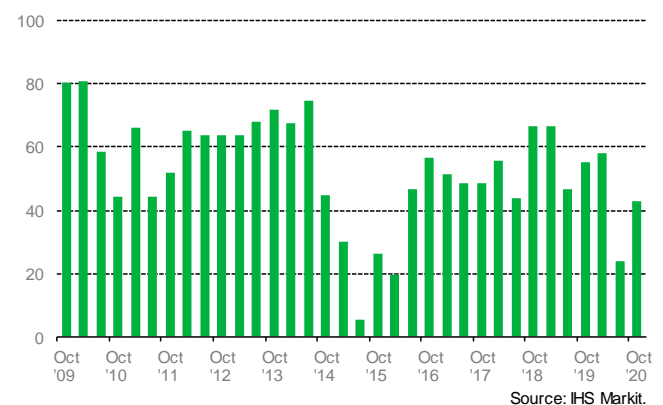
There was a notable improvement in business sentiment across Brazil from the lows, associated with coronavirus disease 2019 (COVID-19) uncertainty, recorded in June. October data showed upbeat growth projections for profitability, employment, capital expenditure (capex), research and development spending (R&D) and output. Except for the latter, optimism signalled for the other measures compared with pessimism mid-year. Firms also foresee stronger increases in input prices, staff costs and output charges over the course of the coming 12 months.

Rising from June's recent low of +24% to +43% in October, the business activity net balance pointed to a stronger degree of optimism that was the highest of all countries for which comparable data are available.

The respective reading for manufacturing was up to +65%, from +58% in June, with the upward revision stemming from predictions of export growth, tax reforms, new product releases, currency stability and investment. Firms also hope that a reduction in COVID-19 cases can boost tourism and demand.

A net balance of +36% of service providers predict output growth in the year ahead, compared to +13% in June, which they pinned on hopes of a COVID-19 vaccine. There were also mentions that lower interest rates and easier access to credit could boost business activity.

Brazil business activity expectations



Companies plan to lift employee numbers and investment

Following the downbeat assessment for headcounts signalled in June, Brazilian companies foresee job creation in the year ahead as staff laid off during the worst of the pandemic get replaced. The employment net balance increased from -7% to +21% in October, the highest of all nations for which comparable data are available.

Goods producers (+34%) were more upbeat than service providers (+16%), though confidence strengthened in both cases.

A net balance of +20% of private sector companies expect to lift capex in the year ahead, with optimism seen across the manufacturing and service sectors. Notably, sentiment in the former was the joint-highest since February 2011.

Confidence towards R&D likewise improved in October. A net balance of +15% of firms expect growth. The degree of optimism among goods producers was the strongest seen in close to ten years. A more modest

improvement in sentiment was noted among services companies.

Inflationary pressures expected to intensify

Brazilian companies foresee greater expenses in the year ahead, with both non-staff and staff costs anticipated to rise. The non-staff costs net balance was up from +18% in June to +43% in October, surpassing the readings of all nations for which comparable data are available. The respective figure for staff costs was up from +7% to +37%.

Firms hope to maintain pricing power in the year ahead, with additional cost burdens expected to be passed on to clients. A net balance of +33% of companies intend to lift selling prices, compared with +4% in June.

Profitability growth anticipated

Brazilian companies became optimistic towards the 12-month outlook for profitability. The net balance improved from -12% mid-year to +23% in October. Broken down by sector, the manufacturing and services readings were at +32% and +20% respectively.

Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Economics Associate Director at IHS Markit, said:

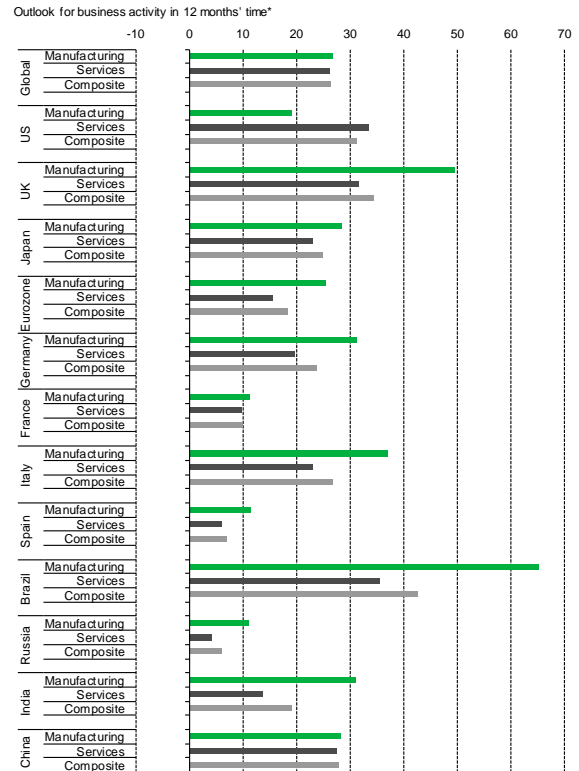
“October data showed a revival in business confidence across Brazil, with optimism towards profitability, employment, capital expenditure and research & development restored. Positive sentiment regarding output was sustained, and strengthened from June.”

“The upbeat forecasts incorporate predictions that a COVID-19 vaccine will be rolled out over the course of the coming months, leading to a reduction in contamination and supporting the economic recovery. Companies also expect that travel restrictions will be lifted, underpinning an increase in tourism, and that interest rates will fall. Should these materialise, firms would be willing to lift employment and investment on capital as well as research and development.”

-Ends-

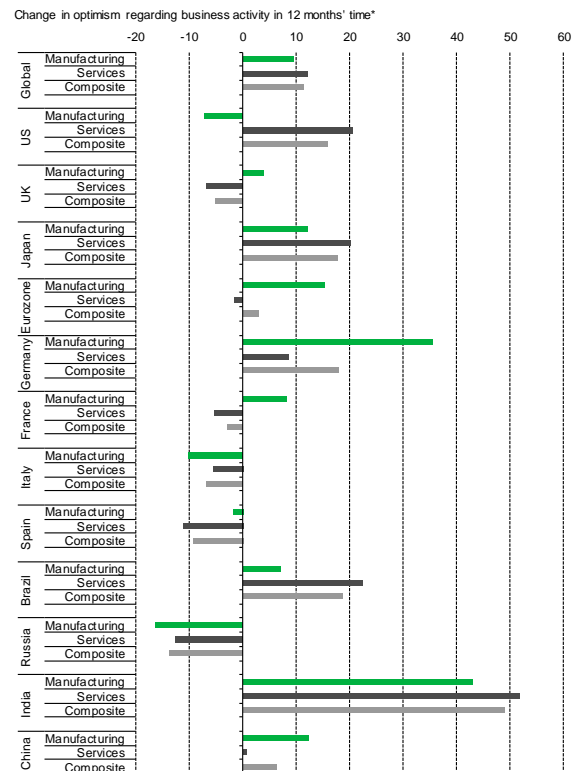
Full data available on request from economics@ihsmarkit.com

Business optimism in October



* chart shows net balance of optimists less pessimists in October.

How business activity expectations have changed since June



* chart shows net balance of optimists less pessimists in October compared to net balance in 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 29.

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, 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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