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IHS MARKIT BRAZIL SERVICES PMI®

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Services activity contracts amid further slowdown in new business growth

KEY FINDINGS

Business Activity Index falls for second straight month

Growth of new work continues to ease

Employment declines again

PMI data highlighted a challenging month for Brazilian service providers, who trimmed output and employment due to a further slowdown in sales growth and sharp cost increases. Subdued market confidence, low consumption, political issues and currency weakness reportedly tested businesses during May.

The headline seasonally adjusted IHS Markit Brazil Services Business Activity Index dipped further below the 50.0 neutral mark in May, falling from 49.9 to 47.8. The latest reading was below the average for the past two years, though pointed to a moderate rate of contraction.

Although new business stayed inside growth territory, May saw its rate of increase moderate to the weakest in the current eight-month sequence of expansion. Anecdotal evidence suggested that loyalty programmes helped firms to secure new work, but that growth was stymied by political uncertainty and subdued confidence.

Brazilian services companies saw overseas demand deteriorate for the third month in a row, with the contraction in export sales the sharpest since last October.

May data showed an increasing degree of spare capacity among Brazilian services firms, as outstanding business fell at the quickest pace in the survey history.

Subsequently, there was another cut to employment, with workforce numbers having now fallen for three consecutive months.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

According to survey participants, job shedding stemmed from idle capacity, mergers, weak demand and efforts to tighten the purse strings. Finance & Insurance bucked the trend and was the only monitored sub-sector to record employment growth in May.

Amid reports of currency weakness, operating expenses continued to rise halfway through the second quarter. A number of survey members indicated higher prices for basic materials, food, fuel and medicine. The overall rate of input cost inflation held close to April's five-month high, thereby remaining above its long-run average.

Almost 10% of service providers passed part of the additional cost burden on to their clients via increased selling prices. At the same time, the remaining firms either offered discounts or left their fees unchanged in line with competitive pressures and sales-boosting initiatives. Overall, the rate of charge inflation was marginal and the weakest in the current three-month sequence of inflation.

Brazilian services companies remained upbeat regarding the 12-month outlook for business activity, with optimism underpinned by hopes of better economic conditions, structural reforms, greater online sales and new partnerships. There was an improvement in overall sentiment from April, though the level of confidence was still the second-lowest recorded in the year-to-date.

IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector output slides in May

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Amid waning growth of manufacturing production and a faster contraction in services activity, aggregate Brazilian output fell for the first time since last September. The Composite Output Index* was down from 50.6 in April to 48.4 in May, signalling a moderate rate of reduction.

New work intakes continued to rise, but the pace of expansion was the weakest in eight months. Here, a marginal fall in factory orders contrasted with a slight and weaker improvement in demand for services.

The drop in employment, however, was widespread across both monitored segments. As a result, private sector jobs decreased for the second straight month in May.

Private sector companies comfortably reduced their outstanding business. The overall lack of pressure on capacity was the most pronounced since comparable data became available in March 2007.

Rates of input price inflation remained elevated in May, as BRL weakness continued to increase firms' cost burdens.

Despite steep rises in operating expenses, companies raised their fees marginally in comparison. Across the private sector, charge inflation eased to a three-month low.

Business sentiment fell among goods producers and improved at services firms. At the composite level, the degree of optimism was among the weakest seen since prior to last year's elections.

**Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Brazil Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

COMMENT

Commenting on the PMI data, Pollyanna De Lima, Principal Economist at IHS Markit said:

"The post-election rebound seen in the service sector has faded away in May, with consumers and businesses increasingly cautious about their spending amid concerns over political impasses and its impact on the wider economy, as well as the currency.

"Regarding demand for services, there was at least a marginal uptick, although growth was down to its lowest rate in the current eight-month sequence of expansion. Cooling sales had a more pronounced impact as business activity and jobs were reduced.

"While in April a resilient manufacturing industry was sufficient to keep the private sector economy inside growth territory, cracks appeared in May. Aggregate output declined for the first time since last September, while there were back-to-back cuts to employment due to idle capacity and cost-reduction measures.

"As for the external environment, businesses faced further struggles. On the one hand, currency depreciation could have supported exports, which contracted at the composite level for the sixth straight month. On the other hand, a weaker exchange rate lifted firms' cost burdens and companies tried to compensate for this by charging more for their goods and services. In the current scenario of global trade slowdown and troubles in some of the top destinations for Brazilian exports, competitive pricing is key to ensure greater sales."

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Methodology

The IHS Markit Brazil Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

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.

May 2019 data were collected 13-28 May 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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