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## IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

### Solid upturn in new business underpins renewed growth of services output

#### KEY FINDINGS

Fastest rise in sales since April

Business activity expands for first time in four months

Business confidence improves to near six-year high

The Brazilian service sector strengthened at the start of the third quarter, as growth of business activity was resumed in light of a solid upturn in new work intakes. Moreover, firms expect this momentum to last, as highlighted by an uptick in business sentiment to its highest in close to six years. In addition to improved demand conditions, a general lack of inflationary pressures supported growth. Charges were lifted only marginally due to a notable slowdown in input cost inflation. July data, however, continued to highlight job shedding and falling exports.

Climbing from 48.2 in June to 52.2 in July, the headline seasonally adjusted IHS Markit Brazil Services Business Activity Index pointed to the first expansion in output for four months. According to survey participants, the upturn was supported by new client wins and a pick-up in demand.

After contracting in June for the first time in nine months, new business inflows rose at the start of the third quarter. Sub-sector data indicated that growth in the Consumer Services and Finance & Insurance categories more than offset decreases in the other three segments.

Brazilian companies reported lower external demand for their services, with particular mentions of weak sales to Argentina. The fall in exports was the quickest since September 2018.

Service sector jobs fell further in July, thereby taking the current sequence of contraction to five months. That said, the pace of reduction was slight and softer than seen on average during the survey history. Some companies mentioned that

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

efforts to trim expenses caused job shedding, but a number of firms took on extra staff amid sales growth.

Although operating expenses rose further in July, the overall rate of inflation moderated to the joint-weakest in four-and-a-half years. Consumer Services and Transport & Storage were the only monitored categories to see a pick-up in inflation, while slowdowns were evident in the other three sub-sectors.

Some companies lifted their fees due to the pass-through of higher cost burdens to their clients, but others offered discounts in line with competitive pressures and efforts to secure new work. Aggregate output prices increased for the fifth successive month, albeit to the least extent in this sequence.

PMI data for July continued to show spare capacity among service providers in Brazil, with outstanding business declining for the forty-eighth month in a row. The rate of backlog depletion was steep and accelerated from June.

Business sentiment surged to a near six-year high in July. Companies expect output growth in the year ahead to be supported by better economic conditions, favourable public policies, partnership, investment and new biddings.

*continued...*

## IHS MARKIT BRAZIL COMPOSITE PMI®

## Service sector strength pushes private sector into expansion

Composite Output Index

sa, &gt;50 = growth since previous month



Source: IHS Markit

In a reversal of the trend seen throughout the second quarter of 2019, July saw service sector activity expand and manufacturing production contract. Given the dominance of the former, Brazilian private sector output rose in July for the first time in three months.

The Composite Output Index\* increased from 49.0 in June to 51.6 in July, signalling a modest expansion in private sector output that was the fastest in four months.

Aggregate sales increased for the thirteenth month in a row at the start of the third quarter, with sustained growth in the manufacturing industry matched by a renewed rise in the service economy. The latter led the upturn.

However, job shedding was recorded in both the manufacturing and service sectors. Goods producers signalled the quickest decline in employment in over two years, while a softer contraction was evident among service providers.

Input price inflation at the composite level moderated to a six-month low in July, with softer increases in cost burdens recorded among service providers and goods producers. Similarly, slower rates of output price inflation were evident in both sectors.

An improvement in business sentiment at the composite level masked notable divergences at the sector level. Services confidence improved to a 69-month high, while optimism among goods producers fell to a 21-month low.

*\*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:

*"Aggregate PMI data for Brazil showed an improved trend in the private sector during July, following a disappointing performance in the second quarter of 2019. A solid and accelerated upturn in sales pushed output back into expansion territory, while business sentiment hit a series high.*

*"The collective results, however, mask notable divergences at the sector level. The cold winds from lingering global trade tensions and softening growth, combined with political and economic issues domestically, dragged manufacturing production into contraction at the start of the third quarter. On a brighter note, services sprung back to life as renewed sales growth underpinned an uptick in business activity.*

*"Labour market trends remained worrying in both the manufacturing and service sectors as businesses held back on hiring again due to spare capacity and ongoing efforts to trim down expenses.*

*"Intense competition and discounting strategies curbed output charge inflation, which eased to 22- and five-month lows in manufacturing and services respectively."*

## CONTACT

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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.

July 2019 data were collected 12-26 July 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

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