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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Service sector sustains economic recovery in October

KEY FINDINGS

Activity rises for second straight month...

...as new order growth accelerates

Business optimism strengthens

Data were collected 12-27 October 2020.

Business activity expanded for the second consecutive month in October, as the service sector continued to recover from the contractions related to the coronavirus disease 2019 (COVID-19) seen from March until August. New work intakes rose further, and at a faster rate, while there was a softer reduction in employment. Input costs increased to the greatest extent in over four years and output charges stabilised. Meanwhile, the level of positive sentiment climbed to the highest since prior to the COVID-19 outbreak.

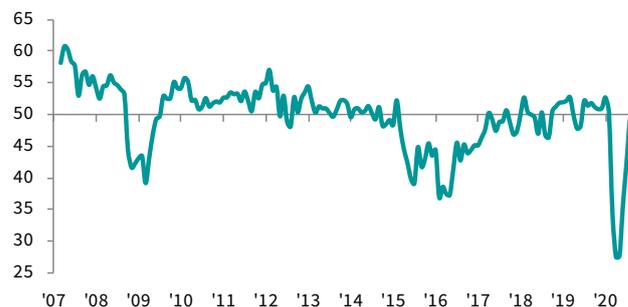
The IHS Markit Brazil Services Business Activity Index was in expansion territory for the second straight month in October, rising from 50.4 in September to 52.3. Surveyed companies that indicated higher output mentioned the ongoing relaxation of containment measures related to COVID-2019. The reopening of some businesses reportedly helped firms to secure new work, thereby boosting activity growth, while there were also mentions of higher local tourism and improved client confidence.

Indeed, new work intakes increased at the start of the final quarter of 2020. The rise was the third in consecutive months and the strongest since January. Firms, however, noted a further deterioration in external demand for their services. New export orders declined at a sharp pace that was quicker than that seen in September.

Despite the uptick in overall demand, service providers signalled another contraction in employment. Where headcounts had been lowered, panellists commented on restructuring efforts, cost-reduction initiatives and

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

the COVID-19 pandemic. That said, the overall rate of job shedding was moderate and the slowest in the current eight-month period of cuts.

October data pointed to mild pressure on the capacity of service providers, as unfinished business continued to increase. Backlogs of work have now increased for three successive months, but the pace of accumulation softened from September.

Service providers reported higher operating expenses in October, which they linked to greater prices for food, petrol, personal protective equipment (PPE) and hygiene products. The rate of cost inflation was sharp and the strongest since September 2016.

Some firms increased their fees in October amid the pass-through of greater cost burdens to their clients, while others offered discounts amid efforts to stimulate demand in light of a competitive environment. As a result, average selling prices were unchanged, ending a six-month sequence of reductions.

Hopes that a vaccine for COVID-19 will be rolled out in the coming months, coupled with predictions of looser containment measures, underpinned positive sentiment among Brazilian services companies regarding future output. The overall degree of optimism strengthened to the highest since February, but remained below the historical average.

continued...

IHS MARKIT BRAZIL COMPOSITE PMI®

Growth of private sector orders and business activity accelerates

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Rising from 53.6 in September to 55.9 in October, the Composite Output Index* pointed to the fastest increase in private sector activity in over a decade. Quicker rates of expansion were recorded in the manufacturing and service sectors, with the former again leading the upturn.

With growth of new orders accelerating in both the manufacturing and service segments, private sector sales expanded to the greatest extent since January 2010.

Employment trends differed, however, with job shedding among service providers offsetting growth at goods producers. As a result, payroll numbers at the composite level were unchanged following seven consecutive months of cuts.

Aggregate input prices continued to rise, with the rate of inflation reaching its highest since composite data became available in March 2007. Manufacturing companies saw a faster increase in cost burdens than their services counterparts, though rates of inflation picked up in both sectors.

Whereas factory gate prices increased, prices charged for the provision of services were unchanged from September. At the composite level, the rate of inflation climbed to a five-year peak.

Sentiment regarding the year-ahead outlook for business activity among private sector companies strengthened from September, with stronger optimism at services firms contrasting with weaker (though still robust) confidence among manufacturers.

**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, Economics Associate Director at IHS Markit said:

"The October results for the Brazil Services PMI survey point to an economy on the mend, with activity rising for the second straight month following COVID-19 induced contractions from March through to August.

"Companies observed a pick-up in demand for their services, which they attributed to a relaxation of COVID-19 restrictions, the reopening of some businesses, increased local tourism and improved client confidence.

"Survey participants observed a sharp increase in their expenses, the strongest in over four years, which they blamed on elevated prices for hygiene products and personal protective equipment. At the same time, pricing power remained subdued and services charges were unchanged on average."

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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.

Data were collected 12-27 October 2020.

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.
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