Softer inflows of new work restrict growth of services activity in February

KEY FINDINGS

Output rises at slowest pace in eight months
New business increases at solid, but softer, rate
Jobs expand only fractionally

After gaining notable speed at the start of 2020, service sector growth in Brazil lost momentum during February. The latest PMI results pointed to softer expansions in new orders, output and employment. Business sentiment weakened, but remained robust overall. The data also revealed that a slower, albeit still sharp, rise in input costs helped contain output charge inflation.

Down from 52.7 in January to 50.4 in February, the seasonally adjusted IHS Markit Brazil Services Business Activity Index signalled the weakest rise in output in the current eight-month sequence of expansion. Companies that noted growth commented on new client wins and higher sales. Those that saw a contraction reported weaker demand for their services and challenging market conditions.

New orders expanded at a slower pace that was nonetheless solid and above its long-run average. Growth was recorded in three of the five broad areas of the service economy, the exceptions being Transport & Storage and Information & Communication. The fastest upturn was noted in Finance & Insurance.

February data highlighted back-to-back declines in new orders from abroad. However, the downturn eased from January and was modest overall.

Brazilian services companies continued to hire additional workers midway through the opening quarter of 2020, thereby stretching the current sequence of job creation to seven months. Firms that took on extra staff commented on higher demand and upbeat growth projections. That said, the overall increase in payroll numbers was marginal and softened from January as some businesses reportedly lowered headcounts due to cost-cutting efforts.

Despite only a marginal increase in employment, service providers were able to further reduce their backlogs of work. The latest decline in unfinished business was marked and accelerated from January.

Services companies indicated that US dollar strength, coupled with higher prices for food, fuel and parts caused a further increase in their operating expenses. The rate of cost inflation softened to a three-month low, but remained sharp and above its historical average.

While some companies raised their fees amid the pass-through of increased cost burdens to clients, other decided to leave them unchanged to try to remain competitive. Consequently, average selling charges rose only slightly in February. As was the case for input costs, the sharpest increase in output prices was evident in the Consumer Services category.

Service providers foresee growth of business activity in the year ahead, with confidence underpinned by predictions of better economic conditions, new projects and the approval of public reforms. Although weakening to a four-month low, the degree of optimism was robust by historical standards.

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Economic expansion across Brazil’s private sector softened halfway through the first quarter, amid a weaker service sector performance. The Composite Output Index* fell from 52.2 in January to 50.9 in February, its joint-lowest mark in the current eight-month sequence of increases. In contrast to a slower rise in services activity, manufacturing production growth hit a three-month high.

A similar trend was observed for new work intakes, with growth easing in services and picking up at manufacturers. As a result, aggregate sales expanded at the weakest pace in three months.

Overall job creation eased in February as a faster increase in employment in the goods-producing industry was offset by softer growth in the service sector.

The private sector recorded the sharpest rise in cost burdens for almost a year-and-a-half. This was driven by a stronger increase in purchase prices facing manufacturers. Output charge inflation at the composite level also picked up from January.

Meanwhile, the trend for exports was broadly similar across manufacturing and services, with both sectors noting slower rates of reduction.

Business sentiment remained strongly positive in February, with levels of confidence in both the manufacturing and service economies surpassing their respective long-run averages.

*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.
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.

February 2020 data were collected 10-25 February 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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