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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Services activity, new business and employment all rise in August

KEY FINDINGS

Output expands for second straight month

Sales growth at four-month high

First increase in employment since February

Brazil's service sector remained in expansion during August, as a marked and accelerated upturn in new work intakes supported further growth of business activity. Demand strength encouraged companies to hire additional workers halfway through the third quarter, with the rise in jobs only the second in the past ten months. Latest data also showed quicker increases in both input costs and output charges, while business confidence waned from July's recent high.

Posting 51.4 in August, the headline seasonally adjusted IHS Markit Brazil Services Business Activity Index highlighted output growth for the second consecutive month. However, falling from 52.2 in July, the latest print was indicative of a softer rate of expansion. Those companies that lifted activity cited strengthening demand and new client wins.

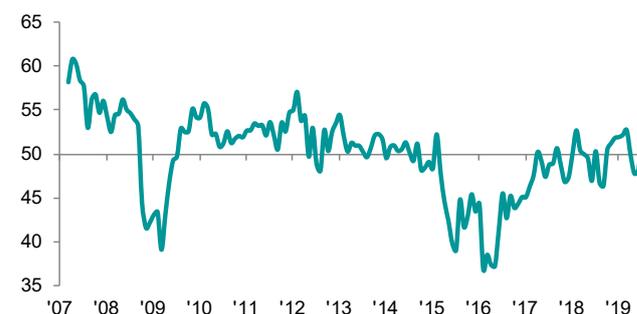
Not only did new business rise for the second straight month, but also to the greatest extent since April. The rate of growth was also above its long-run average. Anecdotal evidence pointed to stronger underlying demand and expanded client bases. Sub-sector data showed growth in Consumer Services, Information & Communication and Finance & Insurance.

PMI data indicated that the uptick in sales stemmed from the domestic market, as new export orders decreased for the sixth consecutive month in August.

Amid reports of new business gains and efforts to fill up vacancies, services companies in Brazil hired additional workers. The increase in employment was only the second in ten months, with growth last seen in February. That said, the

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

pace of job creation was slight, with increases only noted in the Consumer Services and Finance & Insurance categories.

Companies were able to work through their outstanding business in August, with backlogs down for the forty-ninth month in a row. Despite easing from July, the pace of depletion remained sharp.

Input costs increased further in August, with survey participants reporting higher prices for basic items, car parts, food and fuel. Although quickening from July, the overall rate of inflation remained below its long-run average.

In response to rising operating expenses, services firms increased their selling prices for the sixth consecutive month in August. The rate of charge inflation quickened to the strongest since March, but remained much lower than that seen for input costs.

Business confidence remained positive in August, underpinned by predictions of better economic conditions, higher customer numbers and favourable public policies. However, the aggregate degree of optimism weakened from July's near six-year high. Survey evidence indicated that sentiment was dampened by concerns over privatisation, airport concession and troubles in international markets.

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IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector in expansion mode as manufacturing recovers

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Brazilian private sector output rose for the second straight month in August, as manufacturing joined its service counterpart in expansion. Broad-based increases in new orders and employment were also registered.

The Composite Output Index* posted 51.9 in August, up from 51.6 in July, signalling a moderate rise in private sector output that was nonetheless the strongest since March. Growth was faster in manufacturing than in services.

Aggregate new work rose to the greatest extent in five months, with rates of expansion in the manufacturing and service sectors picking up to 17- and four-month highs respectively. Divergences were evident for exports, with growth in the manufacturing industry contrasting with a reduction in the service economy.

Encouragingly, jobs increased in both sectors. Albeit marginal, the expansions seen in August represented positive developments from job shedding in recent months.

The trend for business sentiment was mixed, with manufacturers at their most upbeat since April while optimism among service providers faded. Confidence at the private sector level fell from July's series peak.

Finally, the overall rate of input cost inflation was unchanged from July, while a faster rise in charges was noted.

**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:

"Brazilian service providers benefited from favourable economic conditions halfway through the third quarter, with activity growing for the second month in a row. Solid domestic demand boosted new work intakes and underpinned the first rise in employment since February.

"On the down side, business confidence waned from July's near six-year high, dampened by concerns surrounding privatisation, airport concessions and the spillover risks from headwinds involving the global economy.

"Rising cost burdens continued to put strain on the profitability of Brazilian service providers, with firms paying more for basic items, car parts, food and fuel in August. Sub-sector data showed the strongest rates of input cost inflation in Transport & Storage and Consumer Services. Higher input prices in turn were shifted on to consumers, with average charges increasing to the greatest extent in five months."

CONTACT

IHS Markit

Pollyanna De Lima
Principal Economist
T: +44-1491-461-075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Corporate Communications
+1 781 301 9311
katherine.smith@ihsmarkit.com

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.

August 2019 data were collected 12-27 August 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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