

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION

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IHS Markit Brazil Services PMI[®] (with Composite PMI data)

Services employment rises for first time since February 2015

Key findings:

- Service providers lift headcounts in October...
- ...amid rebound in new business
- Business sentiment at five-year peak

Data collected October 12-26

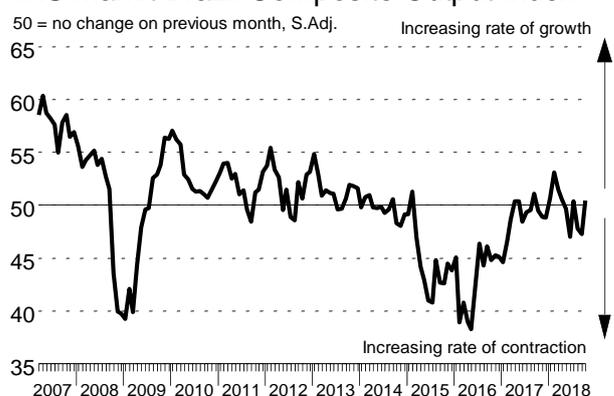
Brazilian service providers experienced a pick-up in new work during October, which led to a renewed upturn in business activity and the first expansion in jobs in over three-and-a-half years. At the same time, business sentiment improved to its highest level since October 2013. Regarding price indicators, a sharp and accelerated rise in input costs was recorded, while charge inflation moderated on the back of some firms' efforts to keep customers and maintain a competitive edge.

At 50.5 in October (September: 46.4), the seasonally adjusted IHS Markit **Brazil Services Business Activity Index** posted in expansion territory for the first time in three months. The latest figure was, however, indicative of a marginal pace of growth. Output rose at Information & Communication and Finance & Insurance companies, while further reductions were evident in the remaining three categories.

The renewed rise in services activity, coupled with a sustained increase of manufacturing production, resulted in a return to growth of private sector output. The **Brazil Composite PMI Output Index** edged up from 47.3 in September to 50.5 in October, a level consistent with a marginal rate of expansion.

Leading services activity to increase was a return to growth of new work, following contraction at the end of the third quarter. Service providers registered a modest rise in sales, although one that was the fastest since July and above the long-run survey average. Anecdotal evidence highlighted improved underlying demand and successful marketing

IHS Markit Brazil Composite Output Index



efforts. Order book volumes at manufacturers expanded at a slight pace that was weaker than seen in the service sector.

October data continued to signal spare capacity among services companies, as outstanding workloads decreased further. The fall in backlogs was the thirty-ninth in as many months and the most pronounced in the survey history. Similarly, goods producers noted a marked decline in work-in-hand, albeit one that was the weakest in the current four-month period of depletion.

The completion of outstanding business at service providers was aided by a renewed increase in employment. Firms posted job creation for the first time in 44 months, but the pace of growth was marginal overall and curtailed by cost-reduction initiatives at some companies. Likewise, manufacturing jobs rose, with growth at a seven-month high.

Encouragingly, business sentiment among services firms remained positive in October, with close to 74% of panellists upbeat towards the prospects for activity in the coming 12 months. Boosting confidence was the end of the elections and an associated reduction in political uncertainty. Optimism climbed to a five-year peak. Sentiment

stayed elevated at goods producers, despite waning to a three-month low.

Services costs rose again, which firms linked to volatility in financial markets, unfavourable exchange rates, collective bargaining and higher fuel prices. The rate of inflation was sharp overall and picked up to the quickest in three months. A softer, albeit historically elevated, rise in purchasing prices was registered in the manufacturing industry.

Services providers raised their selling prices for the fifth month running in October. In contrast to the trend for input costs, the upturn in charges was modest and softened to the weakest in the current period of increases. Curbing inflation were competitive conditions and efforts to retain current customers. Factory gate charges likewise increased at a slower pace, one that was the slowest in six months.

Comment:

Commenting on the Brazilian Services and Composite PMI data, **Pollyanna De Lima**, Principal Economist at IHS Markit and author of the report, said:

“After a bad end to the third quarter, Brazil’s service sector took a step forward during October. Buoyed by a rebound in new work, companies scaled up business activity and hired staff for the first time in over three-and-a-half years. What’s more, the end of the elections lifted spirits among firms, with optimism at a level not seen for five years.

“With manufacturing remaining in expansion mode, the private sector economy posted its best performance since April. Output returned to growth territory amid a surge in inflows of new orders, while composite employment rose for the first time since February 2015. It’s worth noting that the upturn in jobs was marginal, choked off by excessive cost inflationary pressures due to recent real weakness and ongoing efforts to curb operating expenses.

“Although PMI data indicate that goods producers and services firms have experienced a bumpy performance in 2018 so far, growth has failed to recover lost ground from 2015-2016. While businesses confidence was revived by a reduction in political uncertainty, the new government will face challenges such as addressing the fiscal deficit, lifting consumer sentiment and lowering the number of unemployed which stands at 12.5 million before a sustainable economic upturn takes place.”

-Ends-

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Notes to Editors:

The IHS Markit Brazil Services *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The IHS Markit Brazil Composite *PMI*® is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 850 companies based in the Brazilian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index*™ (*PMI*®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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