The Brazilian service sector remained stuck in a deep downturn during July as the coronavirus disease 2019 (COVID-19) pandemic continued to weigh heavily on market demand and activity. Levels of new work and business activity both fell sharply, with the lack of workloads leading firms to again cut their staffing numbers over the month.

The challenging business environment also led to ongoing pressure on profitability. Whilst service providers continued to cut their output charges, operating expenses rose markedly.

The headline index from the report, the IHS Markit Brazil Services Business Activity Index, strengthened in July to 42.5, up from 35.9 in June. Whilst a five-month high, and the best reading in the current sequence of contraction, the degree to which activity fell was again considerable.

COVID-19 was again the key factor weighing on activity, with some companies reporting that units remained shuttered and that market demand continued to be adversely affected by the pandemic. Clients were reported to be hesitant to commit to new contracts given the widespread uncertainty and challenges in conducting business. Overall, new work declined for a fifth successive month and, whilst easing to its weakest in that sequence, the rate of contraction was again considerable. Similar factors impacted on export trade, which fell for a seventh successive survey period, and to a greater degree than in June.

The continued lack of new business placed with service providers meant that levels of work outstanding were again cut, with the rate of contraction accelerating to the sharpest recorded by the survey since last November. The lack of any pressure on capacity, allied with the negative trend in new work, led firms to further reduce their staffing levels in July. Whilst easing since June, the degree to which employment fell was again considerable.

Cost considerations remained a factor behind the fall in employee numbers, according to panellists. Latest data showed that input prices continued to rise, and to a much greater degree than June’s survey record low. Inflation was driven by higher fuel costs and the general inflationary impact of unfavourable exchange rates. Personal protective equipment (PPE), such as gloves and sanitiser, was also noted as an inflationary factor.

Rising costs were not passed onto clients, however, as output charges were again reduced. Panellists reported that the challenging business environment and the need to support sales led to the fourth successive monthly fall in output charges.

Finally, expectations continued to strengthen during July. Although remaining well below its long-term trend, sentiment was at its highest for five months. Companies signalled that they expect new business volumes to increase markedly in line with a resumption of market activity, but only once the COVID-19 pandemic is brought under control.

continued...
The Composite Output Index\(^*\) maintained its recent upward trend during July, though remained below the 50.0 no-change mark to signal another month of falling private sector activity. The index posted 47.3, up from 40.5 in June, and the best reading since February.

There were contrasting fortunes across the private sector. Whilst output growth strengthened amongst manufacturers to a new survey high, the services sector remained deep inside contraction territory.

A similar trend in new business was also recorded. Strong and accelerated growth in manufacturing was more than offset by another month of falling sales at service providers.

Nonetheless, both sectors enjoyed a pick-up in confidence, with overall market sentiment improving to its highest level in five months. Job losses continued to mount, however. Employment in the private sector declined for a fifth successive month despite a return to expansion in manufacturing workforce numbers.

Finally, input cost inflation accelerated to its highest since March, whilst output charges were little changed. Again, divergent trends were observed between manufacturers and service providers. Whilst goods producers registered a record increase in charges, services companies continued to offer discounts.

\(^*\)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.
CONTACT

IHS Markit

Paul Smith
Economics Director
T: +44-1491-461-038
paul.smith@ihsmarkit.com

Katherine Smith
Public Relations
+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.

July 2020 data were collected 13-28 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

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.

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 2020 data were collected 13-28 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("Data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

© 2020 IHS Markit