News Release

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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

New business slides for first time in nine months

KEY FINDINGS

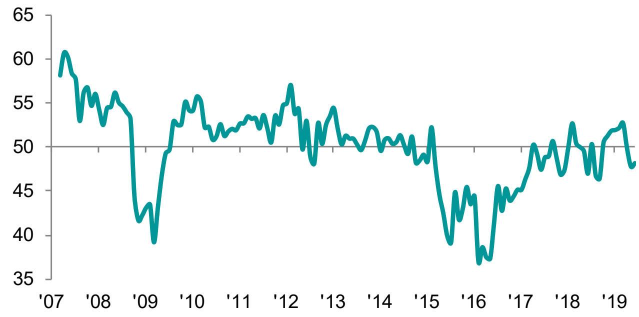
Lower sales causes further reduction in business activity

Job shedding fastest since last August

Charge inflation picks up, despite slower rise in costs

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Brazilian services activity remained in contraction in June, as new orders declined after growth had slowed for two successive months. Consequently, employment continued to fall, with job shedding accelerating to the fastest since August 2018. On the price front, there was a slower rise in input costs and a quicker upturn in selling charges. Inflation of the former continued to outpace the latter, but the gap seen in June was the narrowest in three months.

Registering 48.2 in June, the headline seasonally adjusted IHS Markit Brazil Services Business Activity Index highlighted a third consecutive monthly contraction in output. That said, rising from 47.8 in May, the latest figure showed a slower pace of reduction. Panellists that noted lower business activity cited political and economic troubles, as well as weaker underlying demand and the loss of regular clientele.

Indeed, aggregate sales decreased in June. The contraction was the first since September 2018, albeit marginal. Where a reduction in new orders was signalled, there were mentions of political, financial and economic issues. Finance & Insurance and Real Estate & Business Services were the only sub-sectors to register growth of new work.

New business from overseas also declined, taking the current sequence of reduction to four months. The pace of contraction was solid, but eased since May.

Companies continued to signal lower workforce numbers in June. Job shedding reportedly stemmed from falling sales, restructuring efforts and a lack of available funds. The rate of contraction in service sector employment was the fastest in ten months. Only Finance & Insurance firms posted jobs growth.

Despite ongoing reductions in headcounts, outstanding business declined further at the end of the second quarter. The pace of backlog depletion was marked, but the weakest in five months. The fall in work-in-hand was widespread across all five monitored categories.

Operating expenses continued to rise in June, amid reports of higher prices for food, fuel, medicine and equipment, as well as US dollar strength. The overall rate of input cost inflation eased to a five-month low and was below its long-run average.

In line with attempts to protect profit margins, service providers lifted their selling prices in June. The rate of charge inflation accelerated to a three-month high, but remained well below that seen for input costs.

Hopes of better economic conditions, structural reforms, new offerings, biddings and marketing initiatives underpinned optimism towards the year-ahead outlook for business activity. The overall level of confidence fell slightly from May, however, with firms concerned about airport concessions and lingering demand weakness.

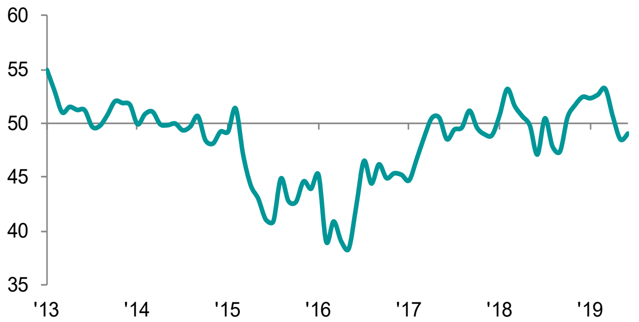
PMI® By IHS Markit

IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector remains in contraction

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Private sector activity in Brazil declined for the second straight month in June amid ongoing weakness in the service economy. Manufacturing production continued to expand, with the upturn picking up pace from May.

At 49.0 in June, the Composite Output Index* rose slightly from May (48.4). The latest gauge pointed to a slower downturn in private sector activity that was only slight.

Sales patterns were mixed across the manufacturing and service sectors, with the former noting renewed growth and the latter the first contraction in nine months.

Payroll numbers fell across both sectors in June, dragging aggregate employment further down. The overall pace of job shedding was the fastest since last August.

Still, companies were able to reduce their outstanding business again at the end of the second quarter. The fall in private sector backlogs was sharp, albeit the slowest in four months.

Input cost inflation across the private sector eased to a four-month low in June, with slower increases seen among goods producers and service providers alike. On the other hand, aggregated output charge inflation picked up to the fastest since March.

Overall business confidence improved, as upbeat sentiment among goods producers offset a mild waning of optimism at services providers.

**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:

“Brazil's private sector is at crossroads as political, financial and economic difficulties mount. Following subdued expansions in 2017 and 2018, economic growth started to falter.

“Official figures for the opening quarter of 2019 showed a 0.2% quarterly contraction in economic activity and PMI data for the second quarter suggest the situation has worsened further, fuelling recession fears.

“In the three months to June, manufacturing production posted the weakest performance since the third quarter of 2018, although remained inside growth territory. But at the heart of Brazil's economy, services activity dipped into contraction.

“Looking at PMI data for June in isolation, we see service providers struggle in the face of lower demand, idle capacity and pressures on profit margins. New work intakes declined for the first time in nine months, which combined with ongoing rises in cost burdens and excess capacity caused the sharpest drop in employment since last August."

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.

June 2019 data were collected 12-25 June 2019.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.