Stronger upturn in sales boosts employment growth

KEY FINDINGS

Solid rise in new work drives job creation to 55-month high

Business activity increases for third straight month

Rates of input cost and output price inflation accelerate

Economic growth in Brazil’s service sector gained momentum in September, supported by improved demand. The latest PMI dataset highlighted stronger increases in order flows, business activity and employment. On a less upbeat tone, input cost inflation accelerated, while there was a slight drop in sentiment and further decline in new export orders.

The headline seasonally adjusted IHS Markit Brazil Services Business Activity Index rose from 51.4 in August to 51.8 in September. The latest reading was indicative of a moderate rate of expansion that was nonetheless above the long-run survey average. Anecdotal evidence pointed to the signing of large projects, better underlying demand and favourable economic policies.

New work intakes rose at the quickest rate in six months during September. According to panellists, the upturn in sales reflected expanded client bases and strengthening demand conditions. As was the case for business activity, new orders increased in three of the five monitored sub-sectors, the exceptions being Transport & Storage and Real Estate & Business Services.

While total sales increased, new business from abroad continued to contract. However, the fall was fractional and the slowest in the current seven-month period of downturn. Aggregate employment in the Brazilian service economy rose further in September. Although moderate, the pace of job creation was the strongest in over four-and-a-half years; a period in which rises were only seen on four occasions. Payroll numbers increased in three out of the five monitored sub-sectors, led by Finance & Insurance. Declines were noted at Transport & Storage and Real Estate & Business Services.

Expanded capacity enabled companies to reduce outstanding business volumes in September, with backlogs down at a sharp pace that was broadly similar to the one noted in August.

Input costs continued to rise, with panellists reporting real depreciation as well as higher prices for fuel, car parts, construction materials, food and staff as the main drivers of inflation. The rate of increase in overall input costs climbed to a four-month high and surpassed its long-run average. By sector, the sharpest rise was evident in Transport & Storage once again.

In response to rising input prices, Brazilian service providers revised their selling charges upwards. The rate of inflation was solid and the fastest since March.

Looking ahead, services companies indicated that improved economic conditions, supportive public policies, greater investment, digital marketing and new technologies should translate into output growth over the course of the coming 12 months. The degree of optimism softened to a three-month low, but was elevated in the context of the series history.

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Growth of private sector output accelerates to six-month high

After returning to growth in July, private sector output expanded at accelerated rates in the two months since. The pick-up noted in September reflected stronger gains in both the manufacturing and service sectors.

Rising from 51.9 in August to 52.5 in September, the Composite Output Index* highlighted the strongest increase in private sector activity since March, with the upturn outpacing the long-run survey average.

The key driver of output expansion was an accelerated increase in new business gains. Growth in the manufacturing and service sectors accelerated to 18- and six-month highs respectively.

As a result, job creation was sustained in both categories, with growth rates quickening in each case. Across the private sector, employment expanded to the greatest extent in over four-and-a-half years.

Meanwhile, aggregate business sentiment remained elevated, despite falling to a three-month low. Downward revisions to growth projections were registered in the manufacturing and service sectors.

Input cost inflation in the private sector economy gathered pace, which resulted in the sharpest increase in selling prices since March. Rates of inflation for both input costs and selling charges were higher in the service economy than in the manufacturing industry.

"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.

September 2019 data were collected 12-25 September 2019.

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