

## IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

### Services activity returns to growth in September

#### KEY FINDINGS

Renewed increase in output

New work intakes expand further

Firms offer discounts despite sharper rise in cost burdens

September 2020 data were collected 11-25 September 2020.

For the first time since the outbreak of the coronavirus disease 2019 (COVID-19), Brazilian service sector activity expanded in September. PMI data also showed another increase in new work and sustained business optimism among survey participants. Intensified cost inflationary pressures, widely linked to the purchase of hygiene materials and personal protective equipment (PPE), resulted in further job cuts as firms attempted to minimise their expenses. Pricing power remained subdued, with companies refraining from lifting their fees amid efforts to stimulate demand.

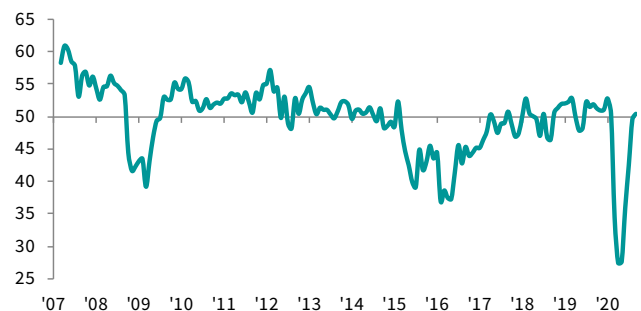
At 50.4 in September (August: 49.5), the IHS Markit Brazil Services Business Activity Index highlighted growth for the first time in seven months. Companies that reported higher output mentioned the reopening of business units following the loosening of COVID-19 restrictions. Nevertheless, the latest figure pointed to a marginal rate of expansion as some firms indicated lower activity at their units. Where this was the case, panellists cited the termination of contracts, high unemployment and the lingering detrimental impact of the pandemic on demand for their services.

New orders rose for the second straight month in September, with survey participants attributing the expansion to the reopening of business units following the easing of COVID-19 restrictions. The overall rate of growth was moderate and broadly similar to August.

New business from abroad declined further, taking the current stretch of reduction to nine months. The pace of contraction moderated to the weakest since February,

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

though remained sharp.

Brazilian services firms saw their costs increase again at the end of the third quarter of 2020, with the rate of inflation the joint-sharpest in close to four years. Anecdotal evidence pointed to higher prices for energy, food, fuel, hygiene materials and PPE.

Companies absorbed additional cost burdens themselves and lowered prices charged for the provision of services amid efforts to secure new work. The overall rate of discounting was, however, fractional and the slowest in the current six-month sequence of reduction.

Amid attempts to curtail expenses, services companies reduced payroll numbers once again. The fall in employment was marked, but the weakest since the current sequence of job shedding started in March.

In turn, outstanding business increased further. The rate of backlog accumulation was solid and the most pronounced in the survey history (since March 2007).

A number of Brazilian service providers hope that a vaccine for COVID-19 will be rolled out in the coming 12 months, thereby curbing the disease and supporting output growth. Conversely, others expect to continue to see the pandemic restricting business activity. Overall optimism was sustained, but the level of positive sentiment fell from August and was subdued compared to the series average.

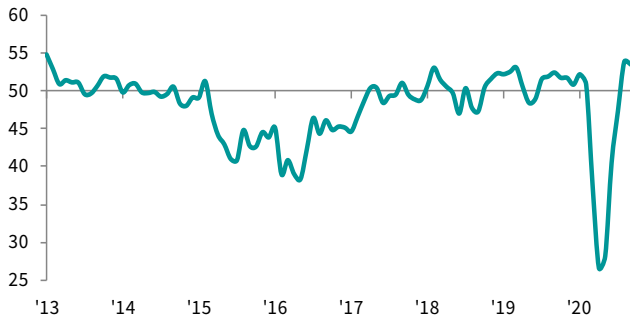
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## IHS MARKIT BRAZIL COMPOSITE PMI®

## Private sector activity rises for second straight month

Composite Output Index

sa, &gt;50 = growth since previous month



Source: IHS Markit

September data showed a second successive rise in private sector output across Brazil, as sustained growth of manufacturing production was accompanied by a renewed increase in services activity. The Composite Output Index\* registered 53.6, broadly similar to August's figure of 53.9 and consistent with a solid rate of expansion.

Aggregate new business rose sharply, sustaining the momentum gained in August, with increases recorded among manufacturing firms and their services counterparts. As was the case for output, goods producers saw a stronger expansion in sales than services companies.

Trends for employment differed, with growth in the manufacturing industry contrasting with ongoing reductions at services firms. At the composite level, there was a further decline in headcounts. However, the rate of contraction was the slowest in the current seven-month period of job shedding.

Stronger rates of cost inflation were registered among goods producers and services firms, which resulted in the sharpest increase in private sector input prices for over four-and-a-half years.

Output charge inflation across the private sector likewise accelerated, reaching the third-highest since composite data became available in March 2007. This reflected a survey-record rise in factory gate prices, as services firms 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.*

## COMMENT

Commenting on the PMI data, Pollyanna De Lima, Economics Associate Director at IHS Markit said:

*"PMI data for September highlighted tentative signs of a recovery across Brazil's service sector, following six consecutive months of contraction due to the COVID-19 pandemic. It's welcoming to see a renewed rise in business activity, even if only fractional, and back-to-back increases in new work intakes. That said, service providers for now continue to shed jobs amid attempts to keep a lid on costs. Said efforts stemmed from a steep upturn in expenses, partly associated with the purchasing of hygiene materials and personal protective equipment.*

*"The news of a revival in the service sector complemented the positive results from the manufacturing industry. Together, these translated into sustained growth of business activity and new work intakes across the combined private sector. Aggregate employment declined, however, and input cost inflation picked-up to the strongest in over four-and-a-half years."*

## CONTACT

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#### 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 2020 data were collected 11- 25 September 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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.  
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