Brazil’s service sector contracted during August as the coronavirus disease 2019 (COVID-19) pandemic continued to weigh on the sector. However, the rate of decline was only slight as levels of new work returned to growth amid reports of a steady resumption of market activity.

Despite workloads increasing, job cuts continued at a heavy rate with firms seeking to minimise costs. Operating expenses nonetheless rose at an accelerated rate whilst the challenging economic environment led to another month of price discounting.

August’s IHS Markit Brazil Services Business Activity Index continued its recent ascent but remained stuck below the 50.0 no-change mark. After accounting for seasonal factors, the index recorded 49.5, up from 42.5 in July. Whilst the best reading since February, the latest data extended the current period of contraction to six months.

Companies continued to report that the global pandemic was weighing on activity, with some units closed amid a low level of incoming new business. That said, there were some positive developments on the demand front, as levels of new work increased for the first time in six months. Growth was modest, but firms noted a steady resumption of market activity and signs of improved demand. However, any gains were notably driven by domestic clients as firms signalled another marked deterioration in new export sales. Foreign demand has now declined for eight successive months.

Despite a rise in overall workloads, which helped push up backlogs of work for the first time in nearly five-and-a-half years, Brazilian service providers registered another month of falling employment at their units. According to the latest data, job losses have now been recorded for six successive survey periods and, despite easing to the lowest in this sequence, the rate of contraction was again marked.

Cost considerations were noted as a major factor behind job losses, with firms indicating that operating expenses were continuing to rise. Input price inflation accelerated to a five-month high amid reports of higher prices being paid for personal protective equipment (PPE) and cleaning products. Efforts to pass on increased costs to clients were generally thwarted, however, by competitive pressures, client negotiations for lower charges, and the generally challenging business environment. Whilst only marginal, output charges declined for a fifth successive month during August. Looking ahead to the coming 12 months, nearly 50% of the survey panel expect a rise in activity from present levels. That helped to push up overall business expectations to the highest since February. There were indications from the survey panel that the ongoing recovery from the pandemic should help to drive new business sales, and subsequently activity, over the next year.
Manufacturing drives private sector growth

The Composite Output Index* returned back above the 50.0 no-change mark during August, reaching a level of 53.9, up from 47.3 in July and signalling the first growth since February. Moreover, the increase in overall activity was the highest registered since the start of 2013.

Manufacturing led the upturn, registering its strongest growth in the survey history. In contrast the service sector continued to contract, albeit marginally.

A survey record increase in manufacturing new orders was also recorded during August, whilst a return to growth in services new business meant that overall private sector new work rose to its strongest degree in nearly a year-and-a-half.

On the jobs front, there were contrasting fortunes across the private sector. Job losses were sustained at service providers, but manufacturing worker numbers rose at the sharpest pace in ten-and-a-half years.

Meanwhile, unfavourable exchange rate factors and rising prices for goods in short supply (such as PPE and cleaning products) drove up private sector input prices to the greatest extent for nearly two years. However, whilst manufacturers raised their own output charges to a considerable extent, services output charges continued to fall.

*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.

August 2020 data were collected 12-25 August 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.