

News Release

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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Brazilian service sector remains mired in deep downturn

KEY FINDINGS

Activity and new business continue to decline sharply

Record drop in employment

Sharpest ever fall in output charges

June 2020 data were collected 12-25 June 2020.

June's survey of Brazilian service providers continued to indicate that the coronavirus disease 2019 (COVID-19) pandemic is having a severe and adverse effect on the services economy. Although easing further on April's survey record, activity continued to fall sharply in June, undermined by another considerable drop in new work. Firms continued to cut employment in response, reflective in part of efforts to control costs. Latest data showed that operating expenses rose only marginally and at the slowest rate in the survey history.

However, margins remained under pressure as discounting hit a new survey record as firms sought to drum up new business in an extremely challenging business environment.

June's headline IHS Markit Brazil Services Business Activity Index improved during June to a four-month high of 35.9, up from 27.6 in May. Despite rising further from April's nadir, the latest reading was again indicative of a considerable contraction in service sector activity.

Panellists widely reported that the COVID-19 pandemic was continuing to have an adverse impact on demand. Latest data showed that volumes of incoming new work were cut for a fourth successive month and, despite easing, again at a considerable rate. Sales from both at home and abroad were reported to be lower. Indeed, new export sales continued to decline at a severe pace according to the latest survey results.

A lack of incoming new work allied with sufficient capacity at units – backlogs of work were reduced again at a noticeable clip in June – had a negative impact on staffing levels during

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

June. Overall, employment fell for a fourth successive month, and at the sharpest rate in the survey history.

There were reports from the survey panel that job cuts had been enacted as part of efforts to control costs, which rose only marginally during the latest survey period. In fact, the latest rise in input prices was the weakest recorded in over 13 years of data collection. Where costs did rise, this was linked to higher prices for personal protective equipment (PPE).

Despite evidence of bringing cost inflation largely under control, service providers still faced a squeeze on their margins as output charges continued to fall in response to the challenging business environment. Overall, the net reduction in output prices was the sharpest recorded in the survey history.

Finally, there was some positive developments on the confidence front, with expectations returning to positive territory for the first time in four months. Forecasts of a resumption in economic activity, related to an easing of COVID-19 restrictions, supported confidence. However, sentiment remains historically low as some firms indicated concerns of a delay to the recovery given ongoing challenges in controlling the pandemic.

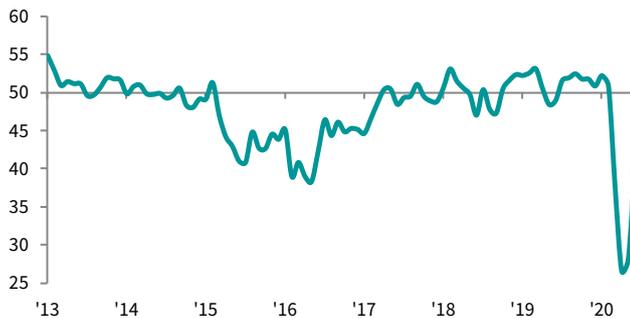
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IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector continues to underperform

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The Composite Output Index* strengthened during June to a four-month high of 40.8, up from 28.1 in the previous month and a further improvement on April's nadir. There were, however, contrasting fortunes across the private sector. Whilst manufacturers enjoyed a return to growth, the services economy remained mired in a deep downturn.

Similar trends were seen for new business, with manufacturers recording solid growth but service providers – struggling in the face of the COVID-19 outbreak – registered another sharp fall in new work.

There was some positive news in terms of expectations, with overall private sector confidence the best recorded in four months. However, staffing cuts persisted, with the rate of job shedding in services the sharpest in the survey history.

Overall cost inflation was little changed since the previous month, although unfavourable exchange rate movements pushed manufacturing input costs up considerably. Service providers recorded only a marginal rise in input costs having reduced their wage bills sharply in June.

*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, Paul Smith, Economics Director at IHS Markit said:

“Despite easing somewhat since May, the downturn in Brazil’s services economy remains severe and of an unprecedented nature. Indeed, the latest data on activity and new business was again quite simply awful, with rapid falls recorded again as the country continues to grapple with the COVID-19 pandemic.

“Firms are facing up to challenges by continuing to shed jobs and limit expenses in a desperate bid to maintain operations as they await a meaningful pick-up in demand growth and for the virus to be brought under control.

“Perhaps some glimmer of hope is that firms can see an uplift in activity over the next 12 months, with confidence returning to positive territory in June, though even here sentiment remains historically muted.”

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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.

June 2020 data were collected 12-25 June 2020.

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.
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