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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

New business growth hits six-year peak at the start of 2019

KEY FINDINGS

Stronger demand boosts sales in the service economy

Output expands at quickest rate in 11 months

Business confidence strengthens

Brazil's service sector took a further step forward in January. Companies experienced the fastest increase in new business for six years and raised output to the greatest extent in 11 months. While the domestic market was supportive of the uptick, there was a solid and quicker reduction in new business from abroad. As for the labour market, there was a third successive contraction in employment, though job shedding softened to a marginal pace. Business sentiment, meanwhile, strengthened to a three-month high.

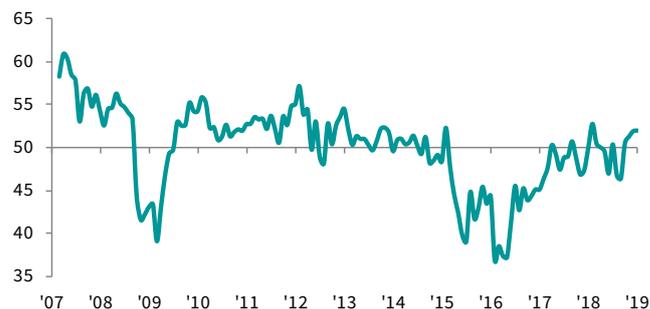
Despite rising only marginally, from 51.9 in December to 52.0 in January, the seasonally adjusted IHS Markit Brazil Services Business Activity Index highlighted the strongest increase in output for nearly a year. Economic stability, improved domestic bookings and a favourable political scenario were among the factors cited for the uptick in activity. Information & Communication posted the quickest expansion in business activity of all monitored sectors, with only Transport & Storage noting a contraction.

New business expanded for the fourth time in a row, and to the greatest extent in six years. The rise in new work was broad-based across all five tracked categories and led by Finance & Insurance. Underlying data indicated that total sales growth was driven by the domestic market, as exports fell for the second straight month and at a sharper pace than in December.

Brazilian service providers were strongly upbeat towards the 12-month outlook for activity, with the level of positive sentiment strengthening to a three-month high and

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

surpassing its long-run average. According to panellists, better economic conditions, new partnerships, the change in government and forecasts of further improvements in demand underpinned optimism.

Amid reports of higher prices paid for energy, fuel, meat, vegetables and rental equipment, service providers' expenses continued to rise at the start of the year. However, the overall increase was the slowest in four years. Ongoing cost-reduction initiatives curbed inflation, according to survey members.

One way in which firms lowered their expenses was via their headcounts. Service sector employment decreased for the third successive month in January, though at the slowest rate in this sequence.

Nonetheless, companies were able to make further inroads into their backlogs. Outstanding business decreased for the forty-second straight month in January, albeit to the least extent since mid-2018.

Output charges increased in January at the same fractional rate that was seen in December. Some companies revised their fees upwards amid the pass on of greater cost burdens to clients. However, a number of panellists reportedly kept their charges unchanged due to successful cost reductions, a relatively stronger domestic currency and sales drives.

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IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector firms see joint-strongest rise in sales in six years

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Buoyed by sustained new business growth, private sector companies in Brazil continued to lift activity at the start of 2019. The Composite Output Index* was at 52.3 in January, little-changed from December's figure of 52.4.

While output growth in the manufacturing industry eased, a marginal acceleration was noted in the service sector. Nonetheless, the former continued to lead the upturn in business activity.

On the sales front, however, services companies noted a stronger increase than their goods-producing counterparts. New business across the combined sectors expanded to the joint-strongest extent in six years.

Employment trends improved in January, with private sector jobs broadly stabilising amid a renewed expansion in manufacturing jobs and a much weaker contraction in staff levels in the service economy.

Aggregate input costs increased at the slowest pace in over four years, with weaker rates of inflation noted in both the manufacturing (18-month low) and service (48-month low) sectors.

Goods producers indicated a solid and faster increase in their selling prices during January, while services charges rose at the same marginal pace as in December. The rate of inflation across the combined private sector ticked higher as a result, but remained below its long-run average.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI 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:

"The Brazilian economy continued to expand in January, in what is the best growth spell for nearly a year. The buoyant services PMI data follow similarly upbeat manufacturing figures, which collectively suggest that the private sector is on course to provide a strong contribution to GDP."

"The great news of renewed job creation in manufacturing was not matched by its service counterpart. On the latter, solace may be taken in a slower and only marginal reduction in employment. But, with services firms experiencing the steepest rise in new work for six years, we expect to soon see companies in this segment hiring too."

"With the upswing in sales growth, the considerable easing of cost inflationary pressures and improved confidence about the outlook, companies should be able to sustain this upward trend in output and most importantly create jobs."

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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.

January 2019 data were collected 11-28 January 2019.

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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.

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