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News Release

Purchasing Managers' Index ™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 10:00 (Sao Paulo) / 13:00 (UTC) September 5th 2018

IHS Markit Brazil Services PMI® (with Composite PMI data)

August sees sharpest fall in services activity since February 2017 as demand falters

Key findings:

- New work rises at second-slowest pace in current eight-month period of growth
- Services output dips back into contraction during August
- Steep increase in cost burdens leads to further job shedding

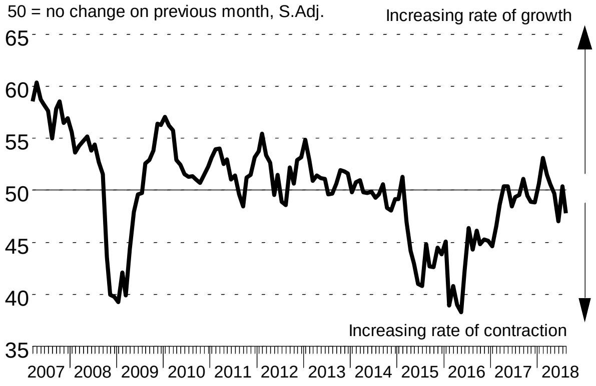
Data collected August 13-28

After having expanded in July for the first time in four months, Brazilian services activity displayed a renewed drop in August. Subdued demand was partly blamed for the fall in output, with new work rising at the second-weakest pace in the current eight-month period of growth. Currency depreciation coupled with rising prices for inputs resulted in another increase in cost burdens which, in turn, led some companies to lower payroll numbers to curb operating expenses. Elsewhere, selling prices were raised again and business sentiment improved on the back of hopes of better economic conditions after the presidential elections.

At 46.8 in August, the seasonally adjusted IHS Markit **Brazil Services Business Activity Index** edged below the 50.0 no-change mark, to signal a renewed decline in output. Down from 50.4 in July, the latest figure was the lowest recorded since February 2017 and indicative of a solid rate of contraction. According to panel members, the downturn reflected fierce competition, political issues and weak underlying demand.

Manufacturing remained in expansion mode, with the upturn strengthening from July. However, the rise was insufficient to offset the downturn in services, which dragged private sector output back into contraction. The seasonally adjusted IHS Markit **Brazil Composite PMI Output Index** dipped from 50.4 to 47.8 in August, the second-lowest figure in one-and-a-half years.

IHS Markit Brazil Composite Output Index



New order receipts at services firms rose midway through the third quarter, but only marginally and at the second-slowest pace in the current eight-month period of growth. Companies that recorded new business gains commented on advertising efforts and expanded client bases. Those that experienced reduction cited competitive conditions, subdued demand, low investments and political crisis. By comparison, factory orders increased at the fastest pace since April.

Brazilian service providers made further inroads into their backlogs amid reports of excess capacity arising from a lack of new business. The fall in outstanding workloads was sharp and the most pronounced since May. Similarly, unfinished business in the manufacturing industry declined again.

The reduction in service sector backlogs was once again achieved despite job shedding. Employment has decreased throughout the past three-and-a-half years, with the pace of contraction seen in August the joint-fastest since April 2017. Where workforce numbers fell, panellists commented on cost-cutting initiatives and weak underlying demand. Manufacturing jobs likewise declined, though only marginally.

Despite softening from July, the rate of input cost inflation at services companies remained elevated by historical standards. Anecdotal evidence highlighted higher food, fuel, tyre and salary costs. There were also reports of greater tax burdens and currency weakness. In the manufacturing economy, purchasing price inflation climbed to a ten-year peak.

Service providers raised their own selling prices again. The rate of charge inflation remained above its long-run average but eased from July and was moderate. Factory gate prices also increased at a slower pace, but one that nevertheless remained elevated in the context of survey data.

Business sentiment among service providers strengthened in August, with panellists predicting better growth prospects after the presidential elections. Restructuring plans, investments, advertising and forecasts of demand improvements were also factors boosting optimism. At the same time, goods producers were at their most upbeat since April.

Comment:

Commenting on the Brazilian Services and Composite PMI data, **Pollyanna De Lima**, Principal Economist at IHS Markit and author of the report, said:

"Lacklustre demand growth, combined with election uncertainty and fierce competition, dragged down Brazilian service sector activity in August. The fall in activity counterbalanced an upturn in factory production and pulled private sector output back into contraction territory.

"Input cost inflation stayed at historically high rates in both manufacturing and services, fuelled by USD/BRL depreciation as well as rising domestic prices for energy, food, taxation and transport.

"The result was another month of job cuts across the nation, as firms sought to restrain operating expenses. Survey data showed the steepest fall in private sector employment in one year, with services displaying a sharper deterioration than seen in manufacturing.

"One key positive takeaway from the latest results was an improved domestic outlook, with focus on changes to political issues. Companies look forward to the elections, predicting then a clearer path to government policies that can support investments and economic growth."

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Notes to Editors:

The IHS Markit Brazil Services *PMI®* is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The IHS Markit Brazil Composite *PMI®* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 850 companies based in the Brazilian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index™ (PMI®)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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