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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Services recovery extends to December and business optimism strengthens

KEY FINDINGS

New business and output expand further

Business confidence improves due to vaccine developments

Renewed fall in services jobs

Data were collected 04-18 December 2020.

Brazilian service providers enjoyed another rise in new business during December, which in turn underpinned output growth. Moreover, in both cases rates of expansion quickened from November. Firms indicated that a surge in coronavirus disease 2019 (COVID-19) cases and efforts to trim expenses caused a renewed decline in employment. However, vaccine developments boosted sentiment towards the year-ahead outlook for business activity. Meanwhile, average cost burdens increased at the fastest rate since mid-2016 and output charge inflation accelerated to a one-year high.

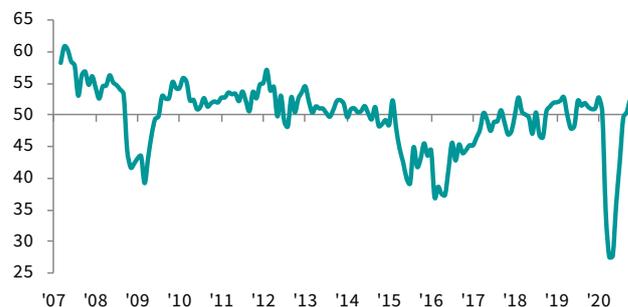
The IHS Markit Brazil Services Business Activity Index rose from 50.9 in November to 51.1 in December, pointing to a slight but quicker rate of expansion in output. Survey participants linked the increase to improved prospects due to positive COVID-19 vaccine news, the reopening of some establishments and better demand conditions. Growth was widespread across the five monitored sub-sectors, led by Transport & Storage.

Brazilian services firms were increasingly confident of a rise in output during 2021, with the level of positive sentiment improving from November. Anecdotal evidence suggested that vaccine developments was the key factor boosting optimism in December.

New work intakes increased for the fifth straight month in December. Moreover, the rate of expansion quickened from November and was solid. Four out of the five broad areas of the service economy recorded growth, the sole exception

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

being Finance & Insurance where a stabilisation was noted.

Foreign demand for Brazilian services improved further in December, as signalled by a second consecutive increase in new export business. Despite being slight, the rate of expansion was the quickest in over two years.

December data pointed to ongoing spare capacity among services companies, as evidenced by a quicker decline in outstanding business. The fall in backlogs was the second in consecutive months, albeit moderate overall.

Service sector employment decreased in December, after rising in November for the first time in nine months. Where job shedding was reported, panel members commented on efforts to cut expenses and a spike in COVID-19 cases. That said, staff numbers fell only slightly.

Input costs rose further, with the rate of inflation picking up to a near four-and-a-half-year peak. Panellists noted higher prices for a number of items, which they partially linked to input shortages and US dollar strength. Quicker increases were noted in the Consumer Services, Information & Communication and Real Estate & Business Services categories.

To protect their margins, some companies passed higher cost burdens on to their clients via upward revisions to their fees. Average output charges rose at a solid rate that was the strongest in a year and outpaced its long-run average.

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IHS MARKIT BRAZIL COMPOSITE PMI®

Aggregate output rises for fifth consecutive month in December

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The economic recovery of the Brazilian private sector continued in December, with output rising for the fifth straight month. The Composite Output Index* was at 53.5, signalling a solid pace of growth, but fell from 53.8 in November to highlight the slowest pace of increase in the current sequence of expansion.

Growth of new orders also lost momentum, despite remaining marked, with the latest increase the weakest in the current five-month period of expansion. As was the case for business activity, the rise in sales accelerated in the service sector whilst easing among manufacturers. Still, the latter led the upturn in both cases.

Goods producers continued to hire extra staff in December, which acted to offset renewed job shedding in the service economy. Subsequently, private sector employment rose marginally in December.

Aggregate input prices rose further, with the rate of increase little-changed from November's survey peak. Cost inflation in the manufacturing sector eased, but remained faster than that seen in its service counterpart.

Private sector companies continued to lift their selling prices at the end of 2020, with the overall rate of charge inflation remaining sharp in spite of slowing from November.

Finally, private sector firms were at their most upbeat about the outlook since February. The improvement in confidence was broad-based among manufacturers and service providers.

**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:

"The Brazilian service sector ended 2020 on an improved footing despite the ongoing COVID-19 pandemic, posting sustained increases in new work intakes and business activity. Impetus came from a strengthening of underlying demand, with vaccine developments leading to improved sentiment among clients and firms. Indeed, service providers were more upbeat about the year-ahead outlook for output.

"While the latest data provide some welcome reassurance that the service economy continues to show resilience to the pandemic, the sustainability of the recovery comes into question when we look at the jobs data and anecdotal evidence from survey participants. After lifting employment for the first time in nine months during November, companies shed them in December amid efforts to curb expenses and a spike in COVID-19 cases. The rise in infections before vaccines become widely available could bring in new restrictions and cut short the recovery. Also, data showed that increases in new business didn't exert any pressure on firms' capacities, with backlogs of work falling despite reduced headcounts."

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Survey 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.

Data were collected 04-18 December 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.
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