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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

New business growth hits nine-month high at year-end

KEY FINDINGS

Business activity rises at quicker rate...

...supported by stronger sales

Input cost inflation at one-year low

The Brazilian service sector moved up a gear in December as a marked and accelerated upturn in new work boosted business activity. Strengthening domestic demand supported the expansion, while international markets faltered. Companies were able to back the uptick by leaving their selling prices broadly unchanged in the face of the weakest rise in cost burdens in one year. At the same time, a robust degree of optimism was sustained. Latest data nonetheless continued to point to spare capacity among businesses, with a quicker fall in backlogs coinciding with back-to-back declines in payroll numbers.

At 51.9 in December, up from 51.3 in November, the seasonally adjusted IHS Markit Brazil Services Business Activity Index reached a ten-month high. The latest figure was indicative of a stronger rate of output expansion and contributed to the highest quarterly average since Q4 2013.

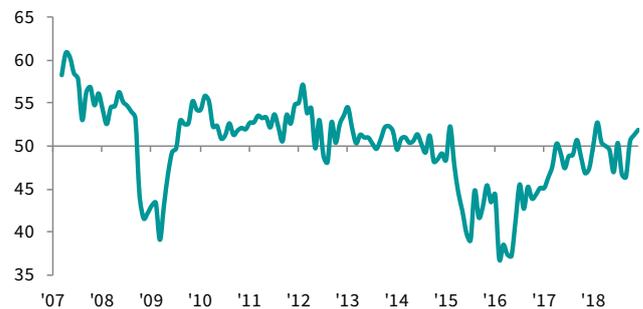
Amid reports of improved underlying demand, new client wins and the offering of additional services, sales growth picked up to the quickest since last March.

The rise in new orders was widespread across all five broad areas of the service economy, as was the case for business activity. Information & Communication led the upturn on both fronts.

December data pointed to a renewed decrease in new work from abroad, after growth had been registered in November for the first time in 44 months. However, the pace of contraction was only marginal.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Service providers made further inroads into their backlogs. The reduction in outstanding workloads quickened from mid-quarter and was sharp.

Service sector employment decreased for the second successive month at the end of the year. Albeit moderate, the pace of job shedding accelerated from November. Companies continued to report cost-reduction efforts as the key reason for lower staffing levels.

Average input costs rose again during December. That said, the overall rate of inflation softened to the weakest in 2018. Slower increases were noted in four out of the five monitored categories, with Finance & Insurance the sole exception.

In turn, selling prices across the service economy rose only marginally, and to the weakest extent in the current seven-month period of charge inflation. Anecdotal evidence suggested that softer increases in expenses and sales-boosting initiatives prevented most firms from hiking their fees.

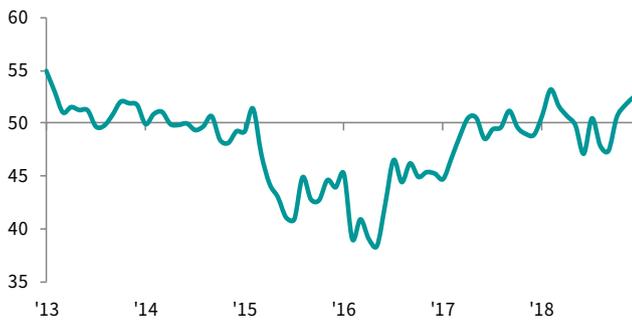
A strong degree of optimism was recorded at the end of the year. Companies suggested that a change in government, coupled with projects in the pipeline, improved consumer confidence and investment intentions should boost business activity in 2019. The level of positive sentiment was the third-highest registered since September 2017.

IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector activity growth at ten-month high

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Rising from 51.6 in November to a ten-month high of 52.4 in December, the Composite Output Index* pointed to a stronger increase in Brazilian private sector activity. Quicker rates of expansion were evident in both the manufacturing and service categories, with the former leading the upturn.

Output growth was boosted by strengthening domestic demand, which led to faster increases in inflows of new business among goods producers and service providers. However, new export orders dipped in a broad-based fashion.

The trend for employment weakened from mid-quarter. Manufacturers signalled a renewed decline in headcounts, while services firms registered a second successive drop that accelerated from November.

Nevertheless, companies were still able to reduce outstanding workloads at the end of the year.

Across the private sector as a whole, there was a moderation of input cost inflation to the weakest in just under four years. As a result, selling prices were lifted to the weakest extent in the current 14-month sequence of inflation.

December data highlighted a mild softening of business optimism, but the overall level of confidence remained elevated. The aggregate Future Output Index was at its third-highest mark in 15 months.

*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 latest PMI readings offer some reassurance that there has been a steady improvement in the service economy heading into 2019. The stronger rise in service sector new orders, coupled with a robust degree of optimism, also bode well for future activity. Firms reported that the upcoming change in government should support growth, boost investments and continue to lift consumer sentiment.

"With manufacturing continuing to gain growth momentum in output and new orders during December, it is likely that Brazil's economy will take a significant step forward in the near-term. Brazilians will hope that this uptick in growth will translate into meaningful and sustained increases in jobs in the year ahead."

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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.

December 2018 data were collected 5-18 December 2018.

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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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