

News Release

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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Service providers enjoy strongest upsurge in new business for over six years

KEY FINDINGS

Fastest improvement in sales since January 2013

Activity growth at one-year high

Renewed upturn in jobs

PMI data for February showed a further improvement in economic conditions across Brazil's service sector. Backed by the steepest gain in new business for over six years, companies lifted output to a greater extent and displayed a renewed appetite for hiring. The upturn in jobs was only the second over the past four years. Moreover, business sentiment strengthened to a four-month high. Price indicators varied, with an accelerated rise in input costs contrasting with an overall reduction in selling prices.

The headline seasonally adjusted IHS Markit Brazil Services Business Activity Index was at 52.2 in February, signalling a modest upturn in output. However, rising from 52.0 in January, the latest figure pointed to the strongest rate of growth in one year. According to panel members, the increase in activity stemmed from stronger underlying demand, confidence in the new government and the securing of additional clients.

New business growth accelerated to the sharpest since January 2013, with robust sales performances evident in the Information & Communication, Finance & Insurance and Real Estate & Business Services. There was little help from international trade, as signalled by only a fractional rise in aggregate new business from abroad.

Supported by upbeat demand conditions and optimistic growth projections, service providers created new jobs during February. The increase in staff numbers was only the second registered over the past four years, with a similarly slight expansion noted in October 2018.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Business sentiment in the service economy strengthened halfway through the first quarter, with close to 64% of firms upbeat towards the 12-month outlook for output. The degree of optimism was elevated by historical standards and the highest since last October. Boosting confidence were predictions that structural reforms, investments, new partnerships, wider product offerings and a better political scenario would lead to growth.

Pricing power among service providers remained subdued midway through the first quarter. Following three months of factional rises in selling charges, latest data showed the first reduction since May 2018. Companies that offered discounts mentioned competitive conditions and sales-boosting initiatives.

The fall in charges, coupled with rising costs, meant that margins came under pressure. February data showed input price inflation climbing to a three-month high and surpassing its long-run average. There were reports of higher utility, transportation, rental, food and labour costs.

Finally, Brazilian services firms made further inroads into their backlogs, with outstanding business declining to a greater extent in February. Data implied that job creation supported the clearing of unfinished workloads.

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Output growth hits one-year high

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Business activity growth in Brazil accelerated in both the manufacturing and service sectors during February. Subsequently, the Composite Output Index* climbed from 52.3 in January to 52.6, its highest mark in one year.

The stronger increase in private sector output was underpinned by faster growth of new business. Services firms outperformed their manufacturing counterparts with regards to the rate of expansion in sales, with the upturn the sharpest in over six years.

Companies across the two segments created new posts in February, leading private sector employment to expand for only the second time in the past four years. Job creation was notably stronger in the goods-producing industry.

Input cost inflation across the private sector quickened to a three-month high and was above its long-run average. Rates of increase picked up in the manufacturing and service categories, with the latter seeing the sharper upturn for the second month in a row. Trends for selling prices diverged. Goods producers continued to hike their fees, although inflation moderated from that seen at the start of the year. Conversely, service providers registered the first overall reduction in charges for nine months.

Business confidence remained robust. Among services firms, optimism was at a four-month high, while sentiment in the manufacturing industry was the third-highest in the series history.

*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:

"As has been the case since last November, the manufacturing industry delivered the foremost push to the improved growth performance seen in Brazil. Nevertheless, the upturn in services activity continued to pick up pace as firms experienced the strongest uptick in sales for over six years. Such was the buoyancy of the domestic environment that service providers employed more workers in February.

"PMI results point to the best round of job creation in the private sector economy for four years, with employment up only twice over this period. For service providers, the decision to resume hiring efforts contributed to a sharper upturn in cost burdens. We see that margins were squeezed in the latest month by price discounting amid a competitive environment.

"The ongoing resilience of the manufacturing and service categories led private sector output growth to surge to its highest in a year, whilst translating into robust levels of confidence among businesses. Optimism, alongside buoyant domestic demand and a return to jobs growth, should ensure that Brazil's economic recovery is sustained in the near-term."

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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.

February 2019 data were collected 12-25 February 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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