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## IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

### January brings renewed decline in services output

#### KEY FINDINGS

Business activity falls for first time in five months

New work intakes return to contraction territory

Back-to-back decreases in employment

Data were collected 12-26 January 2021.

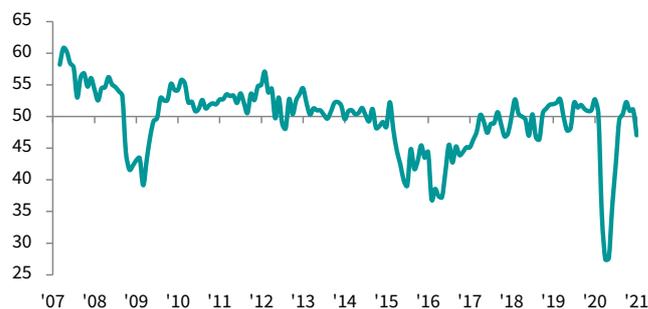
The Brazilian service sector fell back into contraction at the start of 2021, with a renewed decline in new business causing the first reduction in output since last August. Concurrently, the combination of spare capacity and cost-cutting strategies led to another decrease in employment. Meanwhile, price hikes for personal protective equipment (PPE) and hygiene items translated into a sharp rise in overall expenses that were partly passed on to clients via increases to selling prices. The rate of charge inflation hit a 15-month high. While vaccine roll-outs underpinned business optimism towards growth prospects, confidence was restricted by a second wave of coronavirus disease 2019 (COVID-19) cases and financial difficulties among clients.

At 47.0 in January, the IHS Markit Brazil Services Business Activity Index posted below the critical 50.0 threshold for the first time in five months. Falling from 51.1 in December, the latest figure was at a six-month low but indicative of a moderate pace of reduction relative to those seen at the onset of COVID-19. Survey participants linked the decline in output to higher case numbers, the loss of existing customers, business closures and weak demand for services.

Monitored companies observed a renewed decline in new business inflows during January, which ended a five-month sequence of growth. New export orders also fell, after increasing at the quickest pace for over two years during December.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Faced with lower levels of incoming new business, companies diverted resources towards the completion of outstanding projects. Backlogs of work decreased for the third straight month, and at the quickest pace since last July.

In line with spare capacity, weak demand conditions, cost-reduction efforts and a second wave of COVID-19 cases, service providers lowered payroll numbers in January. The fall in employment was the second in consecutive months, albeit moderate compared to the average for 2020.

Service providers signalled a sharp rise in input costs at the start of the year, which they associated with higher prices for PPE and hygiene materials. The rate of inflation eased from December, but was among the strongest in the survey history.

Additional cost burdens were shared with clients in January, as evidenced by a further increase in prices charged for the provision of services. The rate of output price inflation was marked and the quickest in 15 months.

Brazilian services companies forecast output growth in the coming 12 months, with optimism supported by the roll-out of COVID-19 vaccines and hopes of an end to the pandemic. That said, the overall level of sentiment fell since December. A number of firms became increasingly worried about financial troubles at clients and a spike in case numbers which could give rise to tighter restrictions.

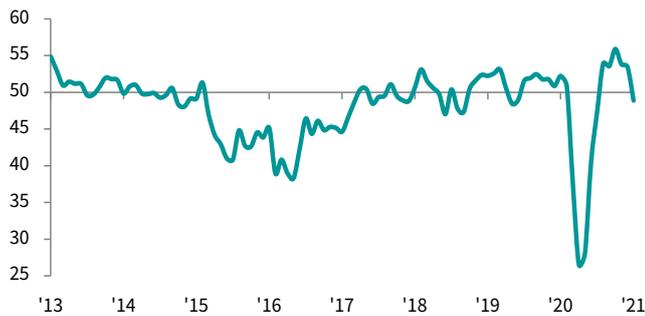
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## IHS MARKIT BRAZIL COMPOSITE PMI®

## Private sector returns to contraction at start of 2021

Composite Output Index

sa, &gt;50 = growth since previous month



Source: IHS Markit

The recovery of the Brazilian private sector was interrupted at the start of 2021, with a renewed decline in new work intakes causing job shedding and the first reduction in output for six months.

The Composite Output Index\* fell from 53.5 in December to 48.9 in January, signalling a slight decline in private sector output and ending a five-month sequence of expansion. The contraction was centred on the service economy, although growth of manufacturing production eased noticeably.

Private sector new orders fell for the first time in six months, albeit slightly. While factory orders expanded, service providers noted a deterioration in demand.

The trend for employment was similar to that for output, with a fall at service providers comparing with slower growth among goods producers. Concurrently, payroll numbers declined at the composite level.

Business confidence weakened at manufacturing firms and their services counterparts, with optimism stronger among the former.

Aggregate input costs continued to increase at the start of the year. The rate of inflation softened to a four-month low, but was stronger than any seen prior to the COVID-19 crisis.

The rate of private sector charge inflation matched that seen December, thereby remaining marked and among the strongest seen since composite data became available in March 2007.

*\*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 January PMI survey results indicate that the Brazilian economy is at risk of going back into contraction in the opening quarter of 2021 as a spike in COVID-19 cases heavily impacted on the private sector during January. Manufacturing managed to stay in expansion mode, though growth rates eased noticeably since the end of 2020. The larger service sector, however, suffered a blow from squeezed income and a subsequent deterioration in demand. As a result, the private sector economy registered renewed declines in new business, output and employment.*

*“Service sector jobs fell for the second straight month in a sign that the economic weakness continued to feed through to the labour market. The PMI survey indicates that firms became increasingly keen to lower overheads in the face of subdued client demand and rising pressure on margins from sharp increases in cost burdens. The rate of job shedding noted in January was modest, but the situation may worsen if the fall in new business does not turn out to be temporary.”*

## CONTACT

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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 12-26 January 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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#### About PMI

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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