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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Services activity and new business rise at stronger rates

KEY FINDINGS

Sales growth at ten-month high

Quicker upturn in business activity

Job creation accelerates

The Brazilian service sector started 2020 with a stronger expansion in output, improving on the trend seen during the final quarter of 2019. Other key measures of economic performance such as employment and new orders also pointed to better overall conditions, while business sentiment remained elevated. The rate of input cost inflation was little-changed from December's 14-month high, but there was a softer increase in selling prices.

The seasonally adjusted IHS Markit Brazil Services Business Activity Index recorded 52.7 in January, rising from December's 51.0, to signal the quickest expansion in output in the current seven-month sequence of growth. Panellists commonly linked the upturn to improved demand for their services. Business activity rose in all but one monitored category, with a contraction in Transport & Storage.

January data indicated greater inflows of new business received by Brazilian service providers, with the rate of increase climbing to a ten-month high and remaining above its long-run average. Of the four sub-sectors where sales growth was noted, Finance & Insurance was the best performer.

Concurrently, new business from abroad decreased, following renewed growth in December. The rate of contraction was, however, moderate in the context of historical data.

Employment in Brazil's service sector increased for the sixth straight month at the start of 2020 and at the second-fastest pace over this period, behind last October. According to anecdotal evidence, recruitment stemmed from greater

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

activity, internal restructuring, a favourable demand environment and upbeat growth predictions.

Indeed, services companies were strongly optimistic that business activity would grow over the coming 12 months, with the level of confidence broadly similar to that recorded in December. Investment, greater client numbers, a favourable economic scenario and public policy reforms were among the reasons cited for the upbeat mood.

Meanwhile, volumes of outstanding work decreased, as has been the case on a monthly basis for four-and-a-half years. Although solid, the pace of backlog depletion moderated to the slowest since March 2018.

January data highlighted a further increase in operating expenses in Brazil's service economy. Greater employment costs, as well as higher prices for energy, food, fuel and water were mentioned by survey participants. The overall rate of inflation was sharp and similar to December's 14-month high.

In response, prices charged for the provision of services in Brazil increased as firms sought to protect profit margins. That said, selling prices were lifted to the least extent in six months. Softer rates of inflation were noted in Transport & Storage, Information & Communication and Finance & Insurance.

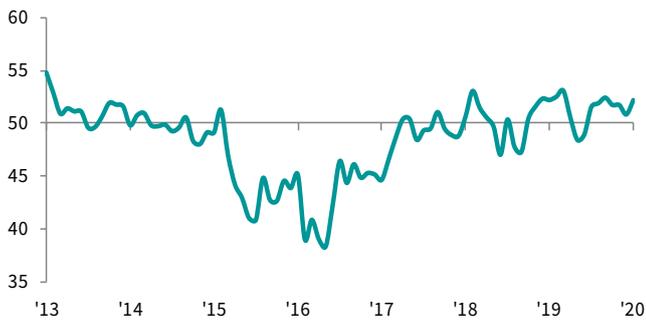
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Fastest increase in sales for ten months

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Brazilian private sector firms benefited from strong influxes of new work in January, which underpinned renewed job creation and a quicker expansion in business activity. The Composite Output Index* rose to a four-month high of 52.2 (December: 50.9). The increase was mainly due to a notably quicker upturn in services activity.

Faster increases in new work were evident in both the manufacturing and service sectors, with the latter the brighter spot. As a result, aggregate sales expanded at a sharp pace that was the strongest since last March.

Private sector employment rose at the start of the year, following a stagnation in December. The pace of job creation was modest, but the fastest since October 2019.

Input price inflation eased from December's 14-month high, but remained elevated in the context of historical survey data. Services firms continued to signal a sharper increase in cost burdens than their manufacturing counterparts.

However, charge inflation was more pronounced in the manufacturing industry than in the service sector. At the composite level, the latest increase in selling prices was softer than recorded in December.

The overall degree of business optimism was little-changed from that registered at the end of 2019, thereby remaining robust and above trend.

**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, Principal Economist at IHS Markit said:

"PMI data for the Brazilian service sector showed a welcome uptick in growth at the start of 2020 as job creation and lower interest rates boosted consumption. Sales were mostly generated domestically, with the survey results highlighting a renewed decline in new export work.

"Service sector employment and business activity expanded at quicker rates, as firms were strongly confident about growth prospects. Companies hope that fiscal reforms will attract investments, improve economic growth and further support demand.

"Although the manufacturing industry remained in expansion territory, it was the service economy that provided the main impetus to private sector growth during January. Accelerated increases in combined sales and output were accompanied by a return to job creation, with PMI indices for all of these three measures posting above their respective long-run averages."

CONTACT

IHS Markit

Pollyanna De Lima
Principal Economist
T: +44-1491-461-075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Public Relations
+1 781 301 9311
katherine.smith@ihsmarkit.com

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.

January 2020 data were collected 13-28 January 2020.

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

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