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IHS Markit Brazil Business Outlook

Business activity sentiment unchanged in February

Key findings:

- Brazilian companies maintain 12-month outlook for output
- Investment intentions revised lower
- Confidence regarding hiring second-lowest since mid-2016

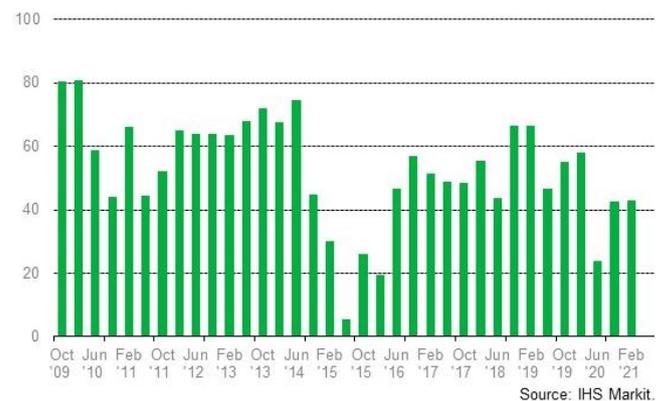
Data collected February 8-23

Although Brazilian companies remained upbeat regarding the 12-month outlook for business activity during February, the degree of optimism was unchanged since the survey was last conducted in October 2020. Moreover, levels of positive sentiment towards capital spending (capex), research and development investment (R&D), employment and profitability declined. On the price front, there were downward revisions to input and output price inflation expectations.

The **IHS Markit Brazil Business Outlook** survey, pointed to an unchanged degree of optimism towards output among private sector companies in Brazil during February. A net balance of +43% of firms predicted growth, one of the lowest readings in five years but above the global average of +32%.

The net balance of manufacturers foreseeing production growth was down marginally from +65% to +64% in February. Where optimism was signalled, companies commented that the coronavirus disease 2019 (COVID-19) vaccination programme could bring the pandemic to an end and support the economic recovery. Firms also hope that expansion into new markets, new product releases and public reforms would aid the upturn. There were, however, mentions that supply chain disruptions, high unemployment, inflationary pressures and virus mutation could threaten the recovery.

Brazil business activity expectations



Concurrently, the net balance of services firms predicting business activity growth was up from +36% to +37% in February. According to survey participants, the COVID-19 immunisation programme, diversification and pent-up demand should support the upturn. Political uncertainty, competitive pressures, inflation and the possibility that the pandemic will linger were cited as key threats to the outlook.

Downward revisions to hiring and investment

For the second straight survey period, Brazilian private sector companies signalled intentions to hire additional staff over the course of the coming year. The degree of optimism weakened marginally since last October, but remained above the global and emerging market averages. Manufacturing firms are more upbeat towards job creation than their services counterparts.

Although R&D spending was predicted to increase, the net balance of private sector companies forecasting growth fell during February. On this front, the overall level of positive sentiment was below both the global and emerging market averages. Confidence weakened among goods producers and service providers, with the latter the least upbeat.

Capex intentions were also weaker in February, with the aggregate net balance of +11% being the second-lowest in five years and below the respective reading for emerging markets.

Input costs set to increase further

Private sector firms forecast greater cost burdens over the coming year, but inflation expectations were revised lower. The net balance of companies predicting higher non-staff costs (+33%) was above the global average (+26%), but that for staff costs (+25%) was below the global reading (+28%).

Companies intend to pass on to their clients part of the additional cost burdens by increasing output charges. Here too there was a downward revision to expectations, however, with the net balance falling from +33% to +26%.

Profitability confidence weakens

Although companies foresee higher input costs in the year ahead, predictions that demand will improve and enable them to lift their charges underpinned upbeat forecasts about earnings. That said, the overall level of confidence was down from late-2020.

Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Economics Associate Director at IHS Markit, said:

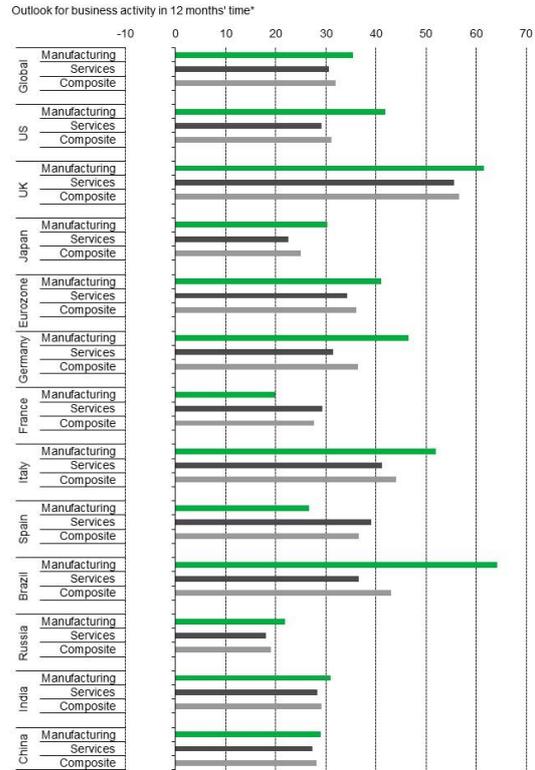
“While sentiment improved across the majority of the nations covered by the Global Business Outlook survey, levels of confidence in Brazil were either equal to or lower than those recorded last October. Companies were optimistic that growing vaccine availability will eventually lead to the lifting of COVID-19 restrictions and a pick-up in demand, but there were concerns over its effectiveness against new variants and the possibility that the pandemic may linger.”

“Caution and uncertainty look set to restrict investment growth in the coming 12 months, with firms on balance less optimistic towards capex and R&D than they were late last year. There were also marginal downward revisions to hiring intentions and profitability sentiment.”

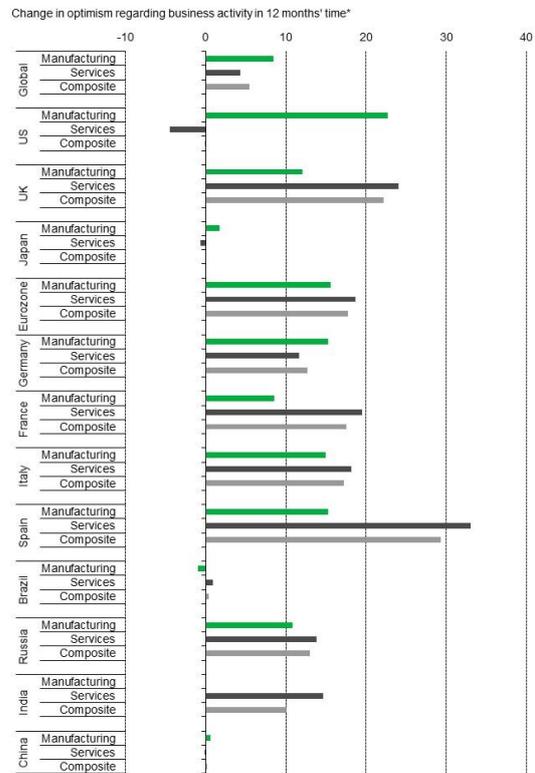
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between February 2 and 25.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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