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IHS Markit Brazil Business Outlook

Brazilian companies signal brightest prospects globally

Key findings:

- Brazil leads output expectations globally
- Manufacturing sentiment at five-year high, services confidence slips slightly
- Positive outlook for hiring and capital spending
- Downward revisions to inflation projections

Data collected February 12-25

Companies in Brazil continue to signal positive prospects regarding output and profits, leading to growth projections for employment and capital spending. For these metrics, levels of sentiment are the highest of the 12 countries for which comparable data are available. The upbeat mood is accompanied by forecasts of softer inflationary pressures.

A net balance of +66% of companies foresee output growth in the year ahead, comparing with +67% last October. The marginal downtick in the headline Brazil Business Activity net balance reflects slightly weaker sentiment in the service sector. Still, the degree of optimism among service providers is the second-highest since June 2014, while manufacturing confidence has hit a five-year peak. Moreover, the composite number is by far the highest globally.

When reporting reasons for optimism, Brazilian companies indicate that tax and labour market reforms can support growth. Firms also hope for credit expansion as well as lower interest rates. Assuming these materialise, businesses aspire to invest in machinery, IT, vehicles, premises, land and hiring. Sales growth is predicted from both the domestic and international markets, with some firms confident of a Mercosur-EU trade deal and greater public investment in infrastructure.

Brazil business activity expectations



However, companies point to a number of factors that can restrict growth such as reforms being vetoed in congress, competitive pressures, troubles in external markets and real depreciation. Among Food & Drink producers, there are concerns of crop failures and Textiles & Clothing firms highlight worries about piracy and the shadow sector. Hotels & Restaurants businesses fear weak tourism due to security problems and Transport & Storage firms are anxious about airport privatisation.

Private sector jobs set to expand

Predictions of higher new work intakes and output growth underpin forecasts of job creation in the year ahead. In the manufacturing sector, hiring intentions are the highest in eight years, while service sector sentiment is the second-strongest since February 2014.

Additional disbursements are also planned for capex and R&D. Regarding research and development, of the 12 countries for which comparable data are available, only Russia is more upbeat. At +34% in February, the net balance of Brazilian private sector firms predicting greater capital spending is the highest in five years. On

both fronts, goods producers are more buoyant than service providers.

Inflation Expectations

Although non-staff cost inflation expectations have been revised lower, they are still historically elevated. Cost pressures are predicted to emanate from US dollar strength and higher prices for fuel as well as raw materials. Companies also forecast greater staff costs in the year ahead. At the same time, data show a downward revision to selling price projections as companies plan to remain competitive.

Corporate Earnings

Profitability is projected to rise over the coming 12-month period, with sentiment little-changed from last October and the strongest globally. Manufacturers are slightly more cheerful than services companies.

Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Principal Economist at IHS Markit, said:

“Latest outlook data show an upbeat mood among Brazilian companies, with forecasts of new business growth underpinning projections of output expansion. It’s encouraging to see robust optimism in both the manufacturing and service sectors, with the former more buoyant.

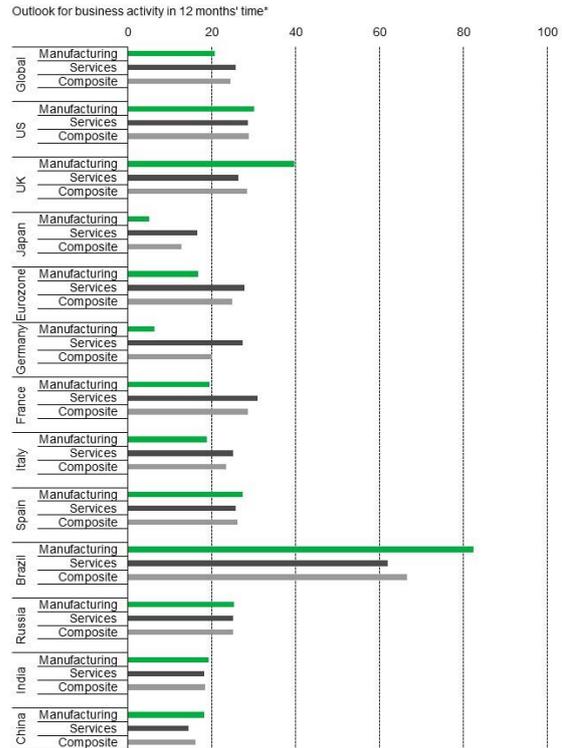
“Most of this bright view on growth prospects stem from expectations of public policy reforms and firms seem aware that they might either be delayed or rejected in congress. There are also hopes of interest rate cuts and credit expansion, which companies suggest would translate into greater investment in capital and R&D.

“Given ongoing labour market weakness, it’s reassuring to see plans for jobs growth. However, hiring intentions have been revised lower in February as businesses are mindful of expenses and their ability to lift charges without jeopardising sales.”

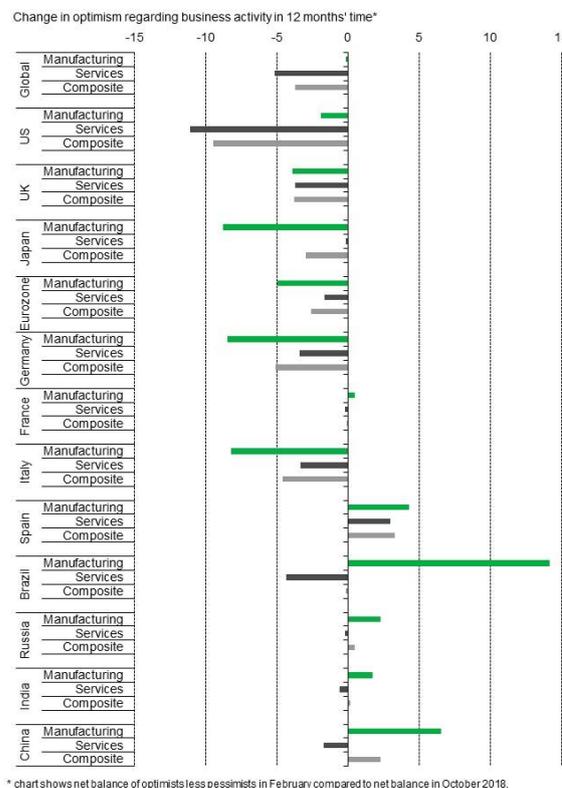
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Full data available on request from economics@ihsmarkit.com

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 12 and 27.

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, fax, 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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