

Embargoed until 1000 Sao Paulo (1300 UTC) 4 June 2021

IHS MARKIT BRAZIL SERVICES PMI®

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Contraction in services activity softens as new orders stabilise

KEY FINDINGS

Slowest fall in output for five months

Tentative signs of a recovery in demand

Business confidence improves

Data were collected 12-25 May 2021.

The downturn in Brazilian service sector output eased noticeably in May, as the recent trend of contraction in new work came to an end. Although companies continued to shed jobs, the rate of reduction was only mild. Looking ahead, firms hope that vaccine progress will bring the pandemic to an end, boosting demand for services and subsequently activity. The latest results highlighted a softer, albeit sharp, increase in input costs but output charge inflation climbed to a 67-month high.

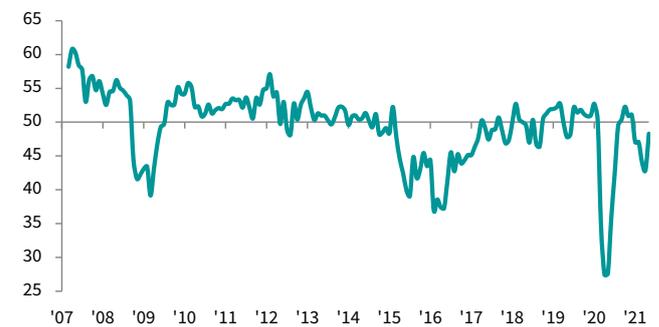
Rising from a nine-month low of 42.9 in April to 48.3 in May, the IHS Markit Brazil Services Business Activity Index signalled the slowest contraction in output in the current five-month period of reduction. Companies that reported lower business activity linked the fall to the COVID-19 pandemic and business closures. The downturn was curbed by an improvement in inbound tourism and new client wins among a few firms.

Survey participants forecast output growth in the year ahead, with the overall level of positive sentiment strengthening from April's recent low. Companies expect the pandemic to recede as vaccine availability improves, boosting demand and supporting activity growth. Some firms plan to lift investments and finance marketing campaigns, while a few intend to diversify their offerings.

After contracting for four consecutive months, new orders were broadly stable in May. Anecdotal evidence indicated

Brazil Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

that demand showed tentative signs of improvement amid the lifting of some international travel restrictions and successful advertising. That said, several firms continued to mention that the pandemic restricted sales at their units.

New export business increased markedly halfway through the second quarter. The rate of expansion was in fact the second-fastest in the series history (since September 2014), behind February 2015.

May data continued to point to spare capacity among service providers, with outstanding business volumes decreasing for the seventh straight month. Moreover, backlogs fell at a sharp pace that was the quickest since February.

In turn, payroll numbers were lowered again. The decline in employment was the sixth in consecutive months, but the weakest in 2021 so far and only slight overall.

The rate of input cost inflation softened to a three-month low in May, but remained sharp and above its long-run average. Survey members reported higher prices for energy, food, fuel, hygiene products and personal protective equipment (PPE).

Not only did selling prices increase for the seventh straight month in May, but also at the fastest pace in over five-and-a-half years. Firms widely attributed the rise to the pass-through of greater cost burdens to clients. The strongest increases in both input costs and output charges were noted in the Transport & Storage category.

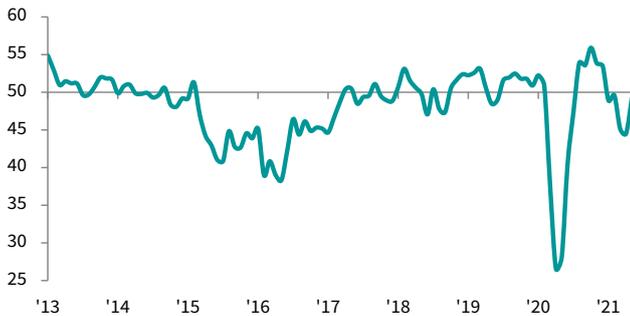
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IHS MARKIT BRAZIL COMPOSITE PMI®

Downturn in private sector output eases in May

Brazil Composite PMI Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Although Brazil's private sector activity shrank again in May, the rate of contraction was slight and the slowest since February. The Composite Output Index* rose from 44.5 in April, a ten-month low, to 49.2. Service sector activity fell at a much slower pace and manufacturing production returned to growth territory.

Private sector new orders increased during May, ending a four-month sequence of reduction. New business stabilised in the service economy and grew in the manufacturing industry.

Employment at the composite level was broadly stable halfway through the second quarter, as growth at goods producers offset a contraction among service providers.

The rate of input cost inflation across the private sector softened further from March's record high, but remained one of the strongest since composite data became available in early-2007. Slower increases were evident in both the manufacturing and service categories.

In contrast to the trend for input costs, there was a quicker increase in aggregate selling prices. In fact, the rate of charge inflation was the strongest seen in the series history. Manufacturers again saw the sharper rise, despite inflation here softening during May.

Goods producers and service providers forecast output growth over the course of the coming 12 months. The aggregate level of positive sentiment improved to a three-month high. Manufacturing firms were more upbeat than their services counterparts.

**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:

“Brazil’s service sector continued to be negatively impacted by the new wave of COVID-19, but to a lesser degree than earlier in the year. Output contracted at a notably slower pace on the back of a stabilisation in new work intakes. Jobs also fell only mildly during May.

“Services companies are confident that as the pandemic recedes business activity will rise sharply. It was particularly uplifting to see some mentions among survey participants of plans to increase investments, advertising and new offerings. Of course, these are likely to materialise once vaccine availability improves and conditions start to return to some sort of normalcy.

“Operating expenses continued to rise sharply in the service economy, with firms passing part of the additional cost burdens on to their clients despite restrained new business. The rate of charge inflation climbed to its highest since late-2015, but remained well below that seen for input prices. The intensification of selling price inflation is worrying and could deter already-fragile demand.”

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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 12-25 May 2021.

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

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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.

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