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IHS Markit Brazil Business Outlook

Business sentiment wanes to post-election low

Key findings:

- Optimism towards business activity and profitability weakest since mid-2018
- Jobs outlook joint-lowest in three years
- Brazilian firms cut investment plans
- Inflation projections down in June

Data collected June 12-25

Brazilian companies are less confident in June, with subdued demand conditions, political and economic troubles curbing optimism. The 12-month assessments for output and profitability are the lowest recorded since prior to the presidential elections last October, causing downward revisions to planned spending on capital, research & development and hiring. At the same time, firms foresee softer inflationary pressures in the year ahead.

The net balance of companies predicting growth of business activity is down for the second survey period in a row, from a near four-and-a-half-year high of +67% in October 2018 to +47% during June. Marked declines in sentiment are evident in both the manufacturing and service sectors, with the respective net balances falling from +82% and +62% in February to +59% and +43% respectively.

Survey evidence highlights a number of concerns among private sector companies, including ongoing demand weakness, competitive pressures, unfavourable public policies, shortages of credit, elevated unemployment, airport concessions, and customer defaults. There are also growing fears of an economic recession, a challenging external environment and a lack of public investment.

Still, survey participants cite some potential growth drivers, such as structural reforms, cheaper borrowing,

Brazil business activity expectations



logistic improvements, productivity gains, enhanced technology and foreign direct investment. Some firms link optimism to export opportunities to China, Russia and Europe, while others hope for tax cuts and incentives. Evidence also highlights plans for better advertising, new branch openings and partnerships.

Hiring intentions dampened by forecasts of subdued economic conditions

Although firms intend to expand workforce numbers, the jobs outlook is the joint-weakest since mid-2016 (equal to June 2018). Goods producers and service providers have revised down their plans for hiring. At +41%, the net balance of manufacturers predicting job creation is the lowest in a year. The respective figure for services is +17%, the lowest since June 2016. Companies indicate that challenging economic conditions will likely lead them to keep a lid on expenses.

Concurrently, capital spending plans have been revised lower, as seen by the composite net balance falling from +34% in February to a two-year low of +17%. As is the case for employment, manufacturers are more likely to lift capex than service providers.

Regarding research and development, spending growth is predicted, but here too sentiment has faded in a broad-based fashion.

Inflation Expectations

Survey participants hope that currency stability will help curb prices for imported materials. This, coupled with lower interest rates and cost-cutting intentions, has resulted in softer inflation predictions for non-staff costs. Similarly, subdued hiring plans have translated into a downward revision to staff cost inflation. Firms expect to maintain pricing power in the year ahead, but the net balance of panellists planning to lift their charges is down from +42% in February to +34%.

Corporate Earnings

A combination of predicted increases in cost burdens, soft demand conditions and weaker rises in selling prices have dragged sentiment for profitability to its lowest level in one year.

Comment:

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

“The latest outlook survey shows sentiment for output running at its lowest since before last year’s election, which has in turn dragged down optimism for profitability. Under this predicted scenario of a softer growth patch in the coming 12 months, Brazilian companies are less willing to invest in capital and research and development, while plans for job creation also have been slashed.”

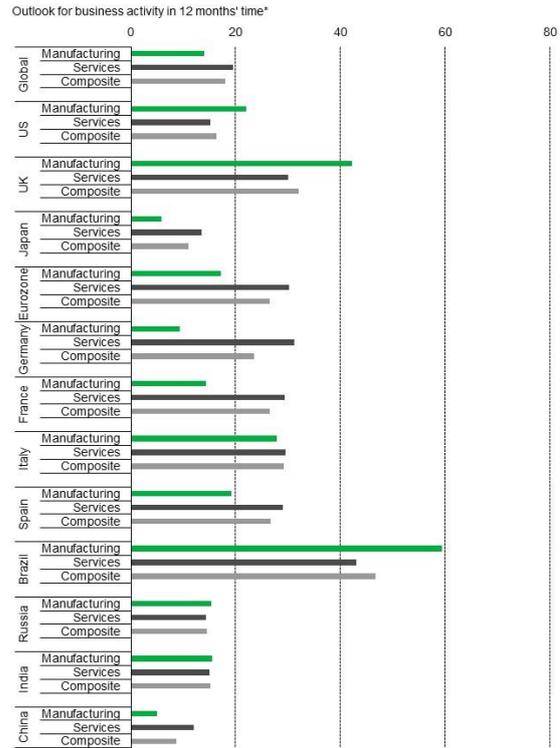
“Across-the-board downward revisions are evident among goods producers and service providers alike, with the former still leading optimism on all fronts.”

“The widespread slide in confidence stems from growing concerns about the health of the Brazilian economy and public policies. A number of firms report fears that reforms and political decisions could spark protests, while there were also worries about privatisation, airport concessions and the shape of the external environment.”

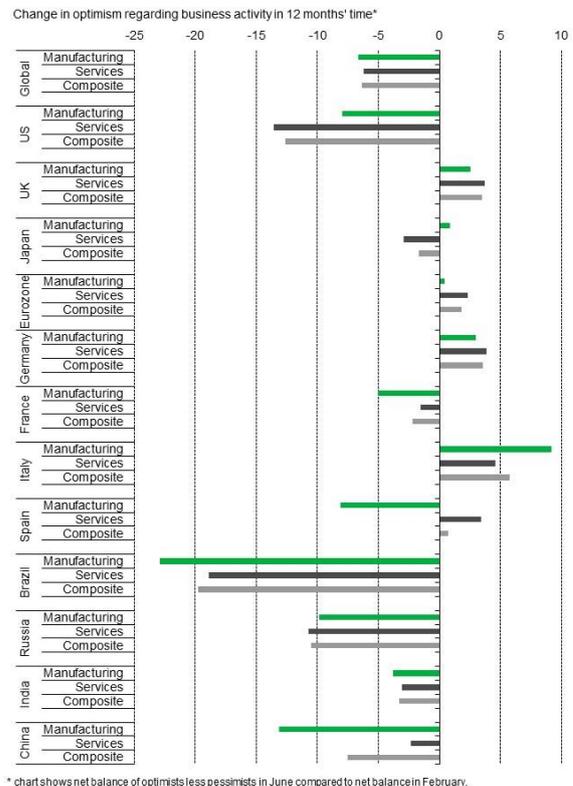
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 12 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, 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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