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IHS Markit Brazil Business Outlook

COVID-19 leads to marked drop in sentiment

Key findings:

- Business confidence lowest since February 2016
- Ongoing COVID-19 outbreak leads to negative profit forecasts
- Companies set to scale back staffing levels and spending on investment
- Cost inflation set to slow, matched by subdued expectations for output prices

Data collected June 10-25

Confidence among companies in Brazil has fallen sharply since February as the coronavirus disease 2019 (COVID-19) pandemic continues to have an adverse impact on the economy. June saw sentiment drop to the lowest since early-2016, while expectations related to profitability, employment and investment were all negative.

The business activity net balance fell sharply to +24% of companies in June, down from +58% in February. This signalled the lowest optimism since early-2016, and one of the weakest outlooks since the series began in October 2009.

The drop in sentiment was particularly marked in the service sector, where confidence was the lowest for five years. Manufacturing optimism was meanwhile the weakest since June 2018.

The COVID-19 pandemic was the principal factor weighing on sentiment, with companies seeing the possibility of the ongoing spread of COVID-19 as the key threat to future activity. Conversely, the main opportunity for growth is for the outbreak to come to an end and demand conditions begin to recover towards previous levels.

Brazil business activity expectations



Employment set to fall

The economic downturn driven by the COVID-19 pandemic is set to have a negative influence on jobs numbers among Brazilian companies. The employment net balance fell to -7% in June, the first negative outlook for staffing levels since February 2016. Sentiment in Brazil was lower than globally (net balance: 0).

As was the case with business activity, the service sector registered the weaker sentiment of the two monitored sectors with regards to employment. Service providers predicted a fall in staffing levels in June, with the net balance of -12% the lowest since the series began in late-2007. The net balance in manufacturing remained in positive territory, but at +7% was down sharply from +46% in February and the lowest since February 2016.

Similar trends were seen for investment on capital and R&D, with both registering negative net balances in June – and the first time that a pessimistic outlook for capex has been recorded.

Weaker inflationary pressures expected

Falling employment levels are predicted to contribute to much weaker pressure on staff costs over the coming

year. The respective net balance fell to +7% in June from +51% in February. Expectations for increases in non-staff costs were also much lower than seen earlier in the year.

Output prices, meanwhile, are set to rise only marginally over the coming year, with a combination of weak demand and a lack of pressure on input costs likely to depress charge inflation.

Most negative outlook for profits on record

Profitability at Brazilian companies looks set to come under severe pressure amid subdued demand and a lack of pricing power. The net balance for profitability fell to -12% in June, the lowest on record and negative for only the third time in nearly 11 years of data collection. Both the manufacturing and service sectors recorded a negative outlook for profits, with service providers the more pessimistic.

Comment:

Commenting on the Brazil Business Outlook survey data, **Andrew Harker**, Economics Director at IHS Markit, said:

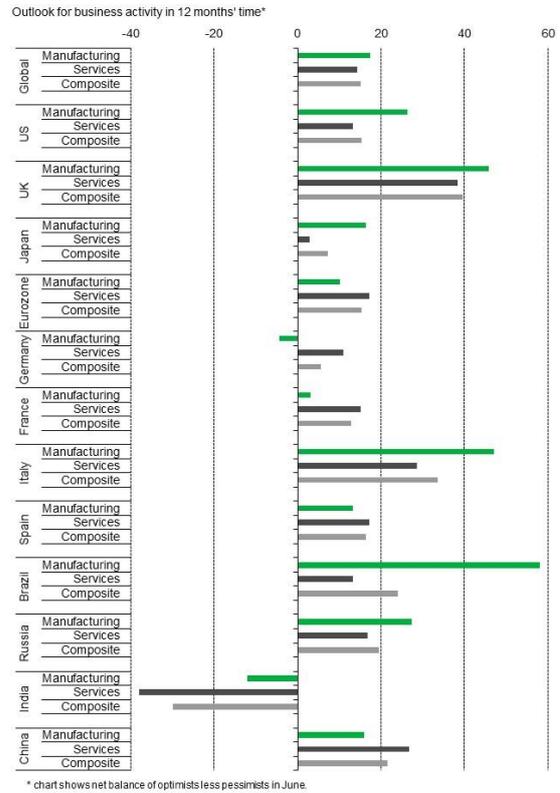
“Pessimism swept through the Brazilian private sector in June as the COVID-19 pandemic shows little sign of loosening its grip on the country. The impacts on the health of the economy are set to be widespread, with companies expecting to retrench in the face of falling profits by cutting staffing levels and investment spending. As and when the virus begins to ease, these cuts are likely to limit the speed of economic recovery.

“The service sector looks set to be hit particularly hard – the net balances for services were below the equivalents in manufacturing across the board in June. This likely reflects the impact of the pandemic and measures to prevent its spread on areas such as transport, tourism, accommodation and food services.”

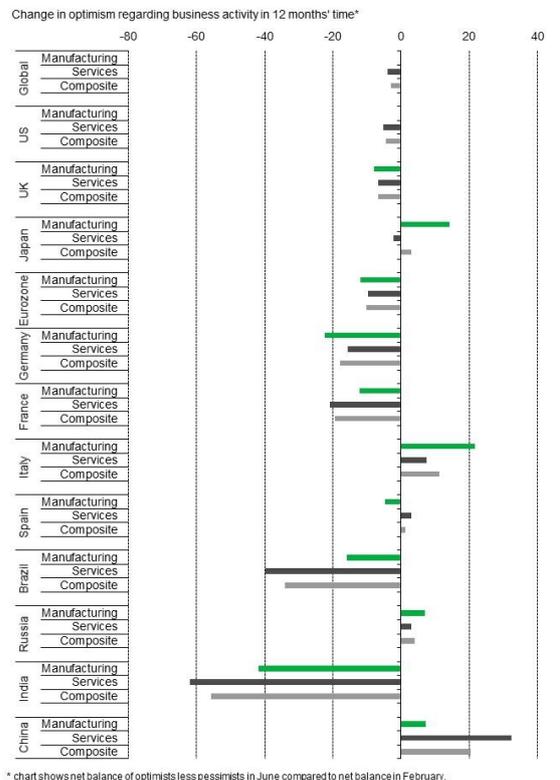
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Full data available on request from economics@ihsmarkit.com

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 10 and 29.

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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