

**EMBARGOED UNTIL: 00:01 (UTC) March 10<sup>th</sup> 2020**

# IHS Markit Brazil Business Outlook

## Brazilian firms start 2020 in confident mood

### Key findings:

- Optimism strengthens to one-year high in February
- Concerns around the COVID-19 outbreak emerge and could be set to intensify
- Firms plan to expand staffing levels and spend more on investment
- Stronger cost inflation predicted, particularly in manufacturing sector

Data collected February 10-25

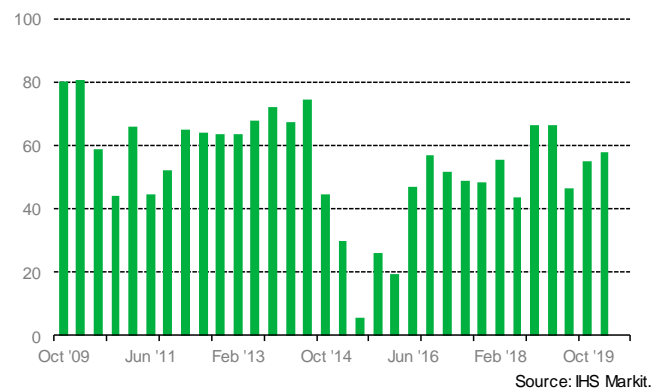
Brazilian firms are at their most optimistic for a year in February, seeing stronger sentiment for business activity, employment, investment and profitability amid hopes for an improvement in economic conditions over the next 12 months. The growing spread of COVID-19 is a threat to the generally positive outlook, however.

The business activity net balance is up to +58% of companies in February, following a reading of +55% last October. This represents strong confidence that output will expand over the coming year, with sentiment improving to the highest for a year. Brazilian firms are again the most optimistic of the 12 countries for which comparable outlook data are available. Stronger confidence is seen across both the manufacturing and service sectors, with the former posting the higher net balance in February.

The data for the latest survey were collected prior to the spread of the COVID-19 virus outside of China and so sentiment may have been impacted negatively since the data were calculated.

Improving economic conditions in Brazil, higher new orders and the prospect of tax reform are among the factors seen as supporting growth over the coming year. On the other hand, the COVID-19 outbreak, competitive

### Brazil business activity expectations



pressures and exchange rate fluctuations are potential threats to the outlook.

### Hiring plans revised up

Confidence around the outlook for business activity has encouraged companies to revise up their plans for staffing levels. A net balance of +32% of firms expect employment to rise, the strongest outlook for a year. Improved optimism is recorded across both the manufacturing and service sectors. As with activity, companies in Brazil are the most bullish globally in terms of hiring plans.

Optimism also feeds through to intentions for investment spending, with sentiment around both capital expenditure and spending on R&D higher than was seen at the end of last year. In both cases, manufacturers have stronger forecasts than service providers.

### Inflationary pressures set to build

The latest business outlook survey points to strong inflationary pressures in Brazil over the coming year. The net balance for non-staff costs is up to the highest for a decade amid worries about currency fluctuations

and the prospect for widespread disruption to global supply chains due to the COVID-19 outbreak. Reflecting this, the net balance in the manufacturing sector is particularly high (+70% in February from +57% in October). Staff costs are also set to rise at a faster pace.

Companies are hopeful of being able to pass on higher input costs to their customers. In fact, the prospects for increases in selling prices are the greatest since late-2018.

### Positive outlook extends to profits

Despite expectations of stronger cost inflation, the generally positive outlook around business activity helps to drive optimism regarding profitability. The net balance is up to +37%, the highest in Brazil for a year and the strongest of all the 12 countries for which comparable outlook data are available.

### Comment:

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

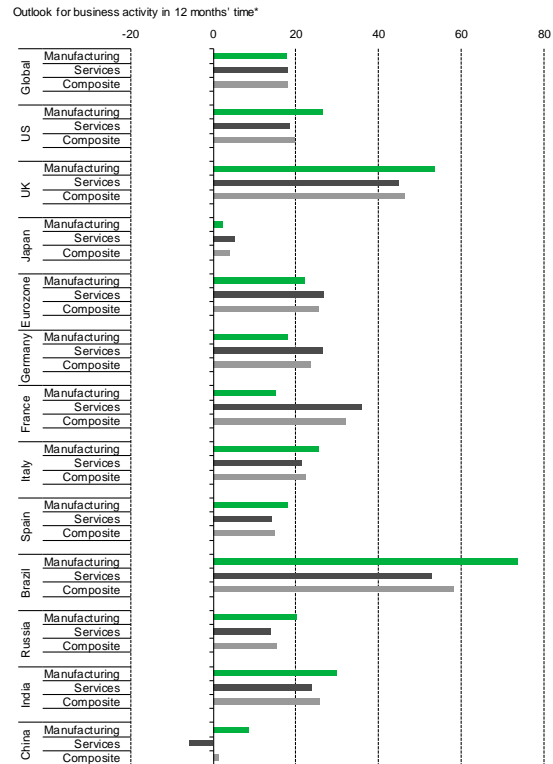
*“The start of 2020 saw further improvements in sentiment among Brazilian firms, paving the way for a successful year ahead. As has been the case in recent surveys, companies in Brazil are generally more upbeat than their counterparts in other parts of the world.”*

*“It is important to note, however, that the survey results date from before the wider spread of the COVID-19 virus beyond China. While firms were already concerned about the impact this could have on supply chains – particularly with regard to purchase costs in the manufacturing sector – worries may have heightened since then as the prospects for severe impacts on global demand grow.”*

**-Ends-**

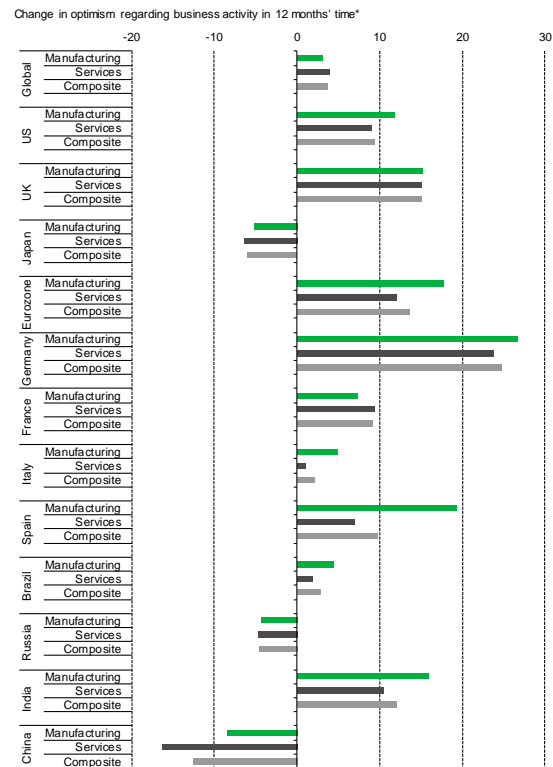
Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in February



\* chart shows net balance of optimists less pessimists in February.

### How business activity expectations have changed since October



\* chart shows net balance of optimists less pessimists in February compared to net balance in 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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