

**EMBARGOED UNTIL: 00:01 (UTC) November 19<sup>th</sup> 2018**

# IHS Markit Brazil Business Outlook

## End of elections lifts spirits among Brazilian companies

### Key findings:

- Output expectations highest in almost four-and-a-half years
- Stronger optimism regarding new business boosts profitability outlook
- Hiring plans strengthen at goods producers and service providers
- Cost and charge inflation set to accelerate

Data collected October 12-26

Brazilian companies are upbeat towards growth prospects in the coming 12-month period, buoyed by a reduction in political uncertainty in light of October's election runoff. Sentiment regarding inflows of new work is at a level not seen for over eight-and-a-half years, underpinning improved confidence for business activity, revenues, profitability, employment and capital spending. Cost inflation remains a key concern, however, particularly in the service sector where expectations have been revised higher.

The headline Brazil Business Activity net balance is up from +44% in June to +67% in October, its highest mark since the June 2014 survey period. Moreover, sentiment is the strongest worldwide, with improvements evident in both the manufacturing and service sectors. Boosting confidence are beliefs that the newly elected government will engender political, economic and currency stability. Companies also foresee greater investments, export opportunities, job creation, policy adjustments and possible tax reductions as key opportunities for growth.

Firms still anticipate challenges ahead, however, with anecdotal evidence suggesting that potential real depreciation can lift the prices of imported items, hamper investments and prevent technological progress. Survey participants have also cited

### Brazil business activity expectations



constrained FDI, infrastructure bottlenecks, competitive pressures, customer defaults and risks of reforms being vetoed in congress as additional threats to the outlook.

### Employment & Investment Plans

In line with a sharp upswing in sentiment for new business (a near nine-year peak), Brazilian companies plan to create jobs over the course of the coming 12 months. The aggregate employment net balance has climbed to a six-year high and is the greatest globally. Moreover, hiring intentions have strengthened in the manufacturing and service sectors.

Businesses also aim to scale up their capital expenditure, as shown by the net balance improving from June's one-year low. Optimism is robust at goods producers and service providers, with the former at their most upbeat since February 2011. Furthermore, the combined net balance is the highest of the 12 nations for which comparable data are available.

### Inflation Expectations

Brazilian companies foresee higher input prices in the coming year, with fuel, imported materials, agricultural

products and freight costs all expected to drive up overall expenses. Some firms have also raised concerns regarding the monopoly power of plastic producers and the greater presence of Chinese goods in Brazil. The net balance of businesses predicting higher costs is the highest since February 2015 and above all those seen worldwide.

Subsequently, firms look set to lift their selling prices over the coming 12 months. As is the case for input costs, the net balance for output charges is at its highest mark in over three-and-a-half years and the greatest globally.

### Corporate Earnings

Expectations regarding revenues and profits also remain positive, strengthening in both cases. The rises represent predictions of robust new business growth and confidence that additional cost burdens will be transferred on to clients.

### Comment:

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

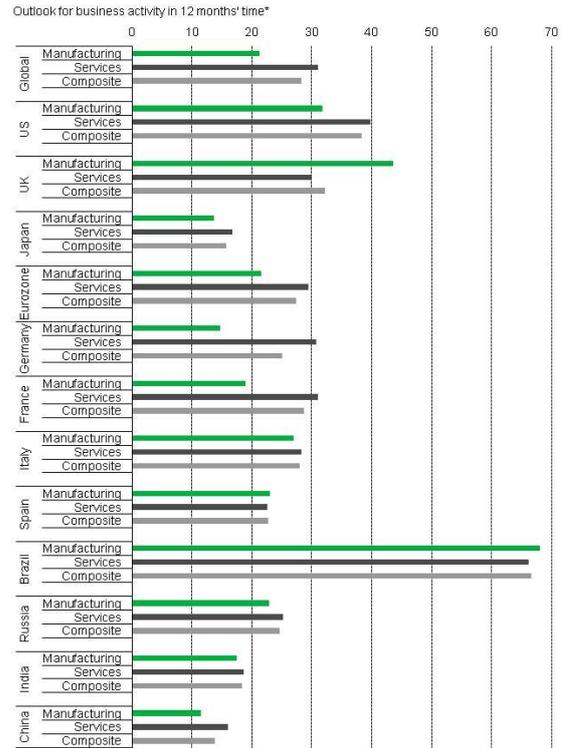
*“Brazil ascended to the top performer among an almost broad-based weakening of confidence globally, recording by far the strongest degrees of optimism towards business activity, investments, profitability and jobs in October. In all cases, sentiment has improved since mid-year, reflecting the elimination of political and economic worries amid the end of the presidential elections.*

*“It’s particularly encouraging to see hiring intentions strengthening to a six-year high, offering some hope that the high unemployment number may start to fall. While PMI data showed that aggregate employment rose for the first time since February 2015 at the start of Q4, continuous job creation is a key piece of the jigsaw for a sustainable economic upturn. Equally, upgraded capital spending plans indicate that business investment may play a role in fortifying growth.”*

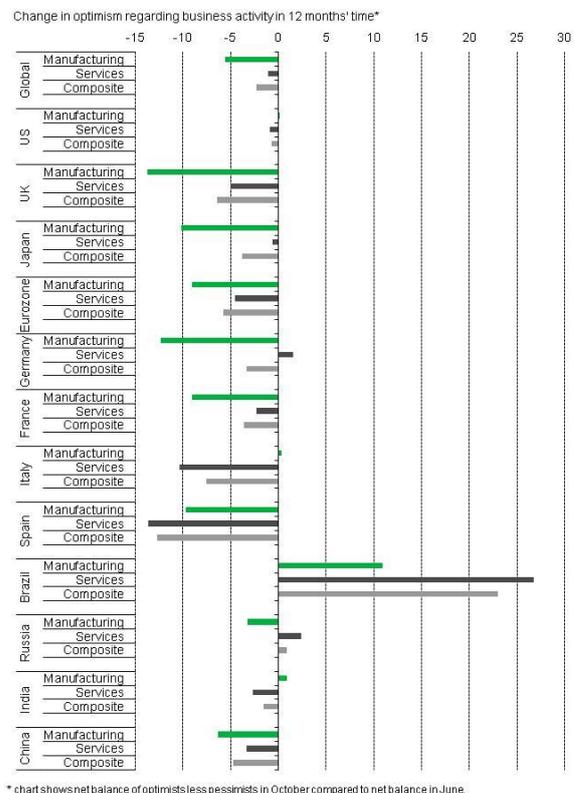
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in October



### How business activity expectations have changed since June



**For further information, please contact:****IHS Markit**

Pollyanna De Lima, Principal Economist  
Telephone +44-149-146-1075  
Email [pollyanna.delima@ihsmarkit.com](mailto:pollyanna.delima@ihsmarkit.com)

Joanna Vickers, Corporate Communications  
Telephone +44-207-260-2234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**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 October 12 and 26.

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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