Record fall in new work as COVID-19 pandemic continues to severely impact service sector

May’s PMI data indicated that the coronavirus disease 2019 (COVID-19) pandemic continued to have a severe impact on the performance of the Brazilian services economy. Activity fell at a rate close to April’s survey record, whilst new business contracted at an unprecedented pace. Job shedding also intensified and was the second-sharpest in over 13 years of data collection as confidence about the future remained negative overall.

Prices data showed that operating expenses continued to increase, but only modestly and at the slowest rate in the past five years. Discounting of average tariffs intensified as firms struggled to retain clients in the challenging business environment.

The headline seasonally adjusted IHS Markit Brazil Services Business Activity Index was little changed in May, posting at 27.6 compared to April’s 27.4. The latest reading was indicative of another substantial contraction in service sector activity.

The COVID-19 pandemic remained a dominant feature within anecdotal evidence provided by Brazilian service providers. Limitations on economic activity was widely reported to have weighed on demand and new business, both at home and amongst foreign clients. May’s survey showed that overall new business declined for a third month in succession and at a fresh survey-record pace. New export business, whilst not falling to the same degree as April’s record, nonetheless continued to fall sharply.

With overall workloads continuing to dwindle, firms chose to make further reductions to their staffing levels. The latest fall in staffing levels was considerable, accelerating to the second-sharpest rate in the survey history. Employment has now declined for three months in succession.

Job losses were in part driven by cost considerations. Although operating expenses continued to increase, they did so only modestly and at the slowest rate in over five-and-a-years. Also pushing down on inflation was evidence of lower fuel costs. In contrast, many companies continued to indicate that the price of personal protective equipment had risen during May.

With demand for services down, and providers trying to retain current clients, discounting was increasingly widespread during May. According to the latest data, output charges were reduced for a second successive month, with the rate of deflation the sharpest in four years.

Finally, Brazilian service providers remained pessimistic overall about future activity levels. Whilst not quite as negative as April’s survey record, May data marked a third successive month that firms have signalled pessimism about activity over the next 12 months. There remained concerns over the longer-term impact on activity and business performance owing to the COVID-19 pandemic.

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The Composite Output Index* rose in May for the first time in four months, though remained well below the 50.0 no-change mark to signal another considerable drop of private sector activity. Posting 28.1, the index was only slightly higher than April's record low of 26.5 as output continued to contract sharply across both the manufacturing and services economies.

Volumes of incoming new business were again substantially lower, falling at a rate little-changed on April's series record. Restrictions related to the COVID-19 outbreak continued to weigh on demand for both manufactured goods and services. Confidence about the future remained subdued during May, although with manufacturers more optimistic towards the outlook, overall private sentiment was mildly positive and up markedly compared to April's record low. Nonetheless, jobs continued to be cut, and at the sharpest rate for four years.

Finally, input cost inflation was a little lower in May, dropping to a five-and-a-half year low. Private sector output charges were cut for the first time in over two-and-a-half years.

*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.
IHS Markit Brazil Services PMI®

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Methodology

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 Composite 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.

May 2020 data were collected 12-26 May 2020.

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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