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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

Rise in COVID-19 cases and reintroduction of restrictions push service sector deeper into contraction

KEY FINDINGS

Services activity drops at fastest pace in eight months...

...amid sharp and accelerated decline in new business

Strongest upturn in input costs in over five years

Data were collected 12-26 March 2021.

Brazil's service sector fell deeper into contraction during March, as a spike in coronavirus disease 2019 (COVID-19) cases and the reinstatement of restrictions caused a sharper decline in new work intakes. In response, companies lowered business activity at the fastest pace since mid-2020 and continued to shed jobs. Meanwhile, cost inflationary pressures intensified, with the latest rise the strongest in over five years. Selling charges increased at a slower, albeit marked rate as some firms limited price adjustments due to sales-boosting initiatives.

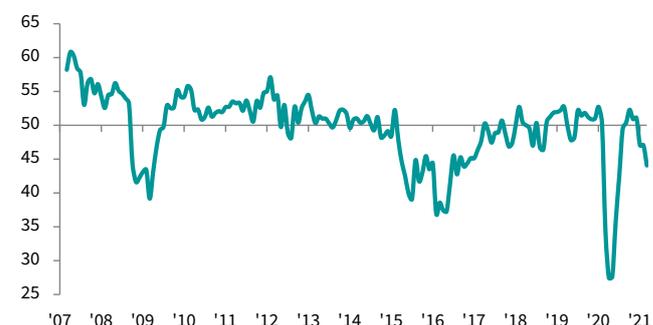
At 44.1 in March, the IHS Markit Brazil Services Business Activity Index was in contraction territory for the third month in a row. Falling from 47.1 in February, the latest reading pointed to the sharpest pace of reduction since July 2020. According to survey members, the downturn stemmed from ongoing demand weakness, the escalation of the COVID-19 crisis and tougher restrictions aimed at curbing the disease.

Not only did new business inflows decline for the third consecutive month, but also at the fastest pace since last June. Furthermore, the fall was broad-based across the five broad areas of the service economy. The sharpest contraction was recorded in Consumer Services.

March data also pointed to a renewed decline in new orders from abroad, following the reinstatement of growth in February. Foreign demand for Brazilian services worsened to the greatest extent since last October. Anecdotal evidence

Brazil Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

highlighted the COVID-19 crisis as the main factor restricting foreign sales.

Ongoing efforts to reduce costs coupled with a sustained fall in new business intakes translated into further job shedding across the service sector. Employment decreased for the fourth straight month and at the fastest pace since October 2020. Declines were noted in four out of the five tracked categories, the sole exception being growth at Information & Communication firms.

Service providers saw their expenses increase further during March, with the overall rate of input cost inflation picking up to the strongest in over five years. Survey participants reported higher prices paid for food, fuel, inputs, personal protective equipment (PPE) and utilities. Rises were often attributed to real weakness (against the US dollar) and a lack of available materials.

Selling prices were lifted in response to rising expenses. The rate of charge inflation remained marked, despite easing from February's recent high. The upturn was curbed by discounting efforts at some firms that strived to gain a competitive edge.

Service providers remained confident that business activity will increase over the course of the coming 12 months, but the overall level of confidence fell in March. Optimism was curtailed by growing concerns over rising COVID-19 cases.

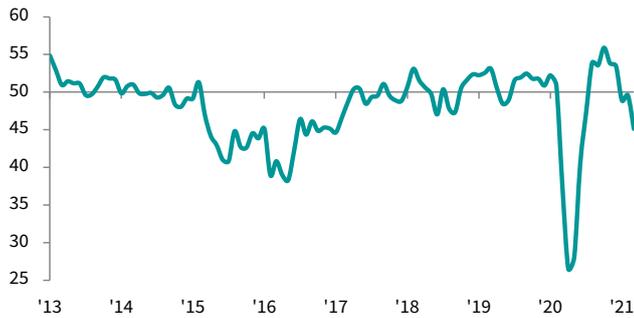
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IHS MARKIT BRAZIL COMPOSITE PMI®

Downturn in private sector output quickens in March

Brazil Composite PMI Output Index

sa, >50 = growth since previous month



Source: IHS Markit

For the third straight month, private sector activity decreased in March. Moreover, the Composite Output Index* fell from 49.6 in February to a nine-month low of 45.1, highlighting a marked and quicker rate of contraction. The fastest fall in services activity for eight months was accompanied by a renewed drop in factory production.

Similarly, new orders declined at both goods producers and service providers. Subsequently, sales at the composite level fell for the third month in a row and at the fastest pace since mid-2020.

March data pointed to a broad-based fall in payroll numbers across the manufacturing and services economies. As a result, aggregate employment contracted further. The pace of job shedding was moderate, but the most pronounced since last August.

Business confidence waned in March, dampened by increased concerns over the spike in COVID-19 cases and the re-introduction of restrictions. The overall level of positive sentiment was at a nine-month low and below the series average. Optimism faded at goods producers and services firms.

The rate of input cost inflation in the private sector reached a new record in March, amid notable accelerations in both the manufacturing and services categories.

Aggregate selling prices rose at a softer, albeit still sharp, pace. Charge inflation quickened at manufacturers but eased at services firms.

**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.*

COMMENT

Commenting on the PMI data, Pollyanna De Lima, Economics Associate Director at IHS Markit said:

"Brazil's service sector was heavily impact by a resurgence in COVID-19 cases and the introduction of tougher restrictions. Companies noted a sharp deterioration in demand, which caused quicker declines in new work intakes and business activity.

"Additionally, firms noted the sharpest increase in input costs in over five years, with many suggesting that price hikes stemmed from the weaker currency and material shortages at suppliers. To lessen the added pressure on margins, businesses reduced employment and lifted their own selling prices.

"With the quicker fall in services activity compounded by a renewed drop in manufacturing production, the private sector saw the fastest contraction in output since mid-2020. Meanwhile, business confidence took a hit as firms were increasingly concerned about the rise in case numbers and the possibility that restrictions will stay in place for a while. Where optimism was recorded, panellists pinned hopes on a faster roll-out of COVID-19 vaccines."

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Survey 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 Manufacturing 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.

Data were collected 12-26 March 2021.

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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