Output charge inflation hits survey peak as a result of elevated input costs

Key findings

Intense cost pressures underpin unprecedented rise in charges

Business activity expands markedly...

...owing to substantial increase in new orders

Service providers enjoyed a healthy influx of new business during October, which underpinned a marked upturn in output and further job creation. Worryingly, however, companies noted another substantial increase in input costs that was the second-strongest in the history of the survey. Subsequently, prices charged for the provision of services in Brazil rose at an unseen rate. Business confidence remained positive, but sentiment was dampened by concerns surrounding households’ purchasing power and the 2022 general election.

At 54.9 in October, up from 54.6 in September, the headline IHS Markit Brazil Services Business Activity Index pointed to a marked monthly expansion in output that was among the fastest seen since early-2012. The upturn was often linked to growing vaccine coverage, reduced COVID-19 cases and rising inflows of new work.

Companies reported a sixth successive monthly increase in new business during October. The pace of expansion remained marked, despite easing to a four-month low. Survey participants indicated that demand conditions improved as the pandemic receded and vaccine access progressed.

The upturn in sales occurred in spite of a substantial increase in prices charged for the provision of services. October data highlighted the sharpest rate of output charge inflation in the near 15 years of data collection. Rising input prices was cited as the main factor leading to upward revisions to fees.

Similarly, average input costs rose at a near-record pace, behind only that recorded in September. Panellists reported higher prices for electricity, food, fuel, gas, hygiene items, PPE (personal protective equipment) and rent. US dollar strength was also behind the latest upturn in overall expenses, according to monitored companies.

Some firms were concerned that elevated price pressures and an associated decline in purchasing power could restrict demand and output in the year ahead, with others also anxious about the impact of next year’s general election on the economy. As a result, the overall level of business confidence fell to a three-month low in October.

More jobs were created in October as service providers hired extra workers to fulfil rising demand needs. The latest expansion in employment was solid and the fifth in as many months.

Recent capacity expansion efforts helped companies to clear their outstanding business in October. Backlogs of work decreased at a solid pace that was the quickest since May.

Elsewhere, there were back-to-back declines in new export work received by services firms. The rate of contraction seen in October was marked and the fastest in seven months.

continued...
Aggregate output in Brazil continued to rise in October as strong growth in the service economy more than offset weakness in manufacturing. At 53.4, down from 54.7 in September, the Composite Output Index* pointed to a solid pace of increase that was nonetheless the slowest in the current five-month period of expansion.

Similarly, service providers were able to secure new work in October but manufacturers posted a decline in orders. At the composite level, new business rose for the sixth consecutive month. The rate of growth was solid, despite softening to the weakest since May.

Private sector jobs in Brazil rose further, taking the current stretch of growth to five months. The pace of increase was marked, but eased from September. Payroll numbers expanded in both the manufacturing and service sectors.

October data pointed to near-record increase in input costs across Brazil’s private sector. Concurrently, the rate of output charge inflation surged to a series peak.

Finally, confidence among private sector firms waned in October. The overall level of positive sentiment was at a three-month low, with declines evident at manufacturers and service providers.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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

“Demand for services in Brazil remained resilient in the face of mounting price pressures. Companies reported a marked increase in sales, despite lifting output charges at a record rate as rising cost burdens were transferred to customers. Hence, we saw one of the strongest monthly rates of expansion in activity for nearly a decade. "With inflationary pressures in Brazil showing no signs of abating in spite of aggressive increases to the benchmark interest rate, the central bank’s tightening stance is likely to continue in coming months. "While the service sector performed well, manufacturers struggled to secure orders due to supply-chain disruptions and price pressures. However, given the larger contribution of services to the private sector economy, aggregate output and sales grew further in October. "Companies in both segments became less optimistic towards the outlook, with concerns over rising expenses, raw material scarcity, falling purchasing power and the 2022 general election dampening sentiment.”
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 rise 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.

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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 12-26 October 2021.

Survey data were first collected March 2007.

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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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