

EMBARGOED UNTIL: 00:01 (UTC) November 15th 2021

IHS Markit Brazil Business Outlook

Companies forecast economic growth alongside escalation of inflationary pressures

Key findings:

- Optimism towards business activity highest since onset of COVID-19
- Employment expectations improve in October
- Inflationary pressures set to mount

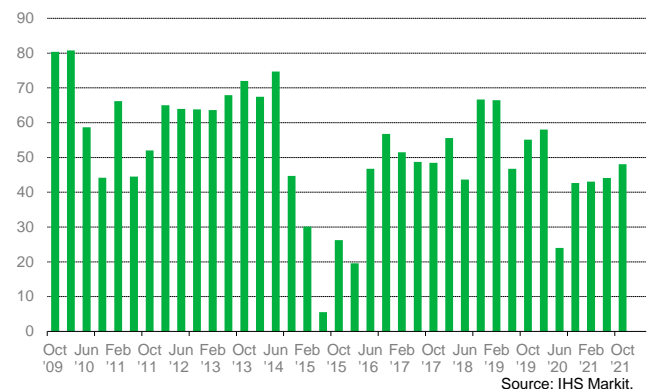
Data collected October 12-26

Brazilian companies forecast activity growth over the course of the coming year amid the retreat of the pandemic and greater vaccine access. Concurrently, budgets for capital expenditure and research and development (R&D) were revised higher. Inflationary pressures look set to intensify as currency weakness, higher interest rates, material shortages and rising fuel prices were all predicted to lead to increased cost burdens, which businesses intend to share with clients by hiking their charges.

The **IHS Markit Brazil Business Outlook** survey indicated that sentiment continued to improve in October, with a net balance of +48% of firms predicting output growth in 12 months' time. This was up from +44% in June and the highest figure since the start of the pandemic. Panellists suggested that business conditions should improve as the pandemic recedes and vaccine access increases. Companies intend to focus on finding new suppliers and partnerships, with some mentioning efficiency gains and greater investments.

Although manufacturers remained more upbeat than service providers, sentiment among the former weakened to the lowest in four years. The overall degree of optimism among services firms meanwhile was the highest post-pandemic. The manufacturing and services net balances were at +56% and +46% respectively in October, from +70% and +36% in June.

Brazil business activity expectations



Inflation expectations at near-record high

Private sector firms became increasingly concerned about the persistence of inflationary pressures. A net balance of +52% of businesses foresee higher non-staff costs in the year ahead, up from +39% in June and the fourth-highest reading since comparable data became available in 2009. Anecdotal evidence indicated that input and water shortages coupled with real weakness (against the US dollar), higher interest rates, rising fuel prices and lingering supply-chain problems would lead to greater input costs. Inflation looks set to be more acute in manufacturing (+60%) than in services (+50%).

Capacity expansion plans led to an upward revision in staff cost inflation expectations in October, with the composite net balance up to its highest since the start of the pandemic and above the global average.

Brazilian companies intend to share additional cost burdens with their clients. At +45% in October, the net balance of firms aiming to lift their fees was the second-highest in three years. The respective readings for manufacturing and services were at +58% and +42% in October, from +65% and +24% in June.

Job vacancies set to rise

Business outlook data for October indicated that private sector firms in Brazil aim to hire additional workers over the course of the coming year to assist with planned increases in output. Moreover, sentiment surrounding job creation improved to a post-pandemic high. While confidence among goods producers weakened to the lowest since mid-2020, service providers were at their most upbeat for over two-and-a-half years.

A net balance of +31% of goods producers anticipate capex growth in the year ahead, compared with +16% in June and a global average of +19%. The respective reading for services was up from +15% to +19%, above the global and emerging markets averages.

Sentiment regarding R&D was also much higher at manufacturers (+30%) than at service providers (+8%). At the aggregate level, optimism strengthened to a one-year high but was below that seen for emerging markets.

Profitability growth forecast to strengthen

With companies expecting to share additional cost burdens with their clients, profitability is projected to increase in the year ahead. Service providers were more upbeat about earnings than goods producers.

Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Economics Associate Director at IHS Markit, said:

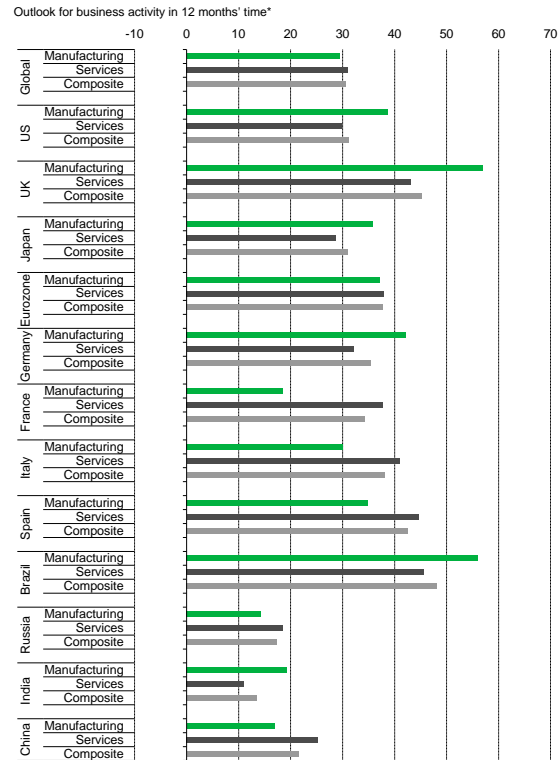
“Despite a further increase in cost inflation expectations, Brazilian firms forecast economic growth in the year ahead and revised higher their capex and R&D spending plans. Central to the upbeat mood were hopes that the COVID-19 pandemic would recede as vaccine access improves.

“The key threat to the outlook cited by survey members was increasing input costs. Firms expect supply-chain issues, currency weakness, raw material scarcity, higher interest rates and rising fuel prices to lead to greater expenses in the year ahead. However, companies were confident that pricing power would be retained and plan to lift their output charges as a result.”

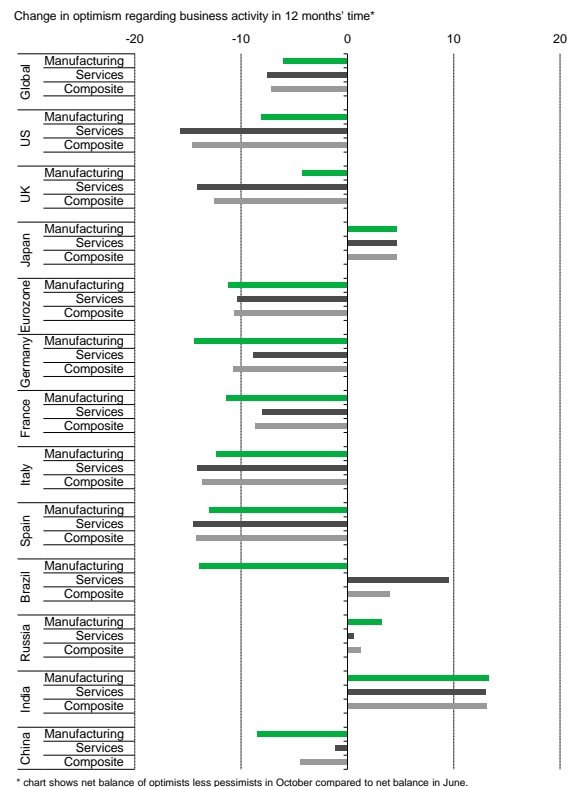
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 October 11 and 29.

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, 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 8,000 firms.

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