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IHS MARKIT BRAZIL SERVICES PMI®

INCLUDING IHS MARKIT BRAZIL COMPOSITE PMI®

New business intakes rise at fastest rate since March

KEY FINDINGS

Sales expand at marked and accelerated pace...

...boosting job creation

Business activity growth slows

The Brazilian services economy continued to improve at the start of the final quarter of the year. Buoyed by robust gains in new work, companies hired additional workers and scaled up business activity during October. While rates of expansion in demand and employment accelerated, output growth softened from September. Elsewhere, there were sharper increases in input costs and output charges, while business optimism strengthened.

At 51.2 in October, the seasonally adjusted IHS Markit Brazil Services Business Activity Index signalled output growth for the fourth month running. That said, the headline figure was down from 51.8 in September to indicate the slowest upturn in activity in the current sequence of increases. Companies that reported expansion mentioned strengthening demand conditions.

Not only did new orders expand for the fourth straight month, but also at the fastest rate since March. The Finance & Insurance category led the rise in sales, with declines only noted in Transport & Storage and Real Estate & Business Services.

There was a mild contribution from external markets, with new export business rising for only the second time in the year-to-date. Anecdotal evidence pointed to higher tourism and better international demand for Brazilian services.

Sales growth encouraged hiring activity among services companies, with jobs up for the third successive month. The rise in employment was solid and the strongest in over four-and-a-half years.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

In turn, job creation assisted businesses in the completion of their outstanding work. Backlogs were down for the fifty-first month in a row in October. Despite easing to the slowest since March 2018, the pace of depletion was solid.

Another factor contributing to the upturn in payroll numbers was an improvement in business confidence. Service providers expect the approval of public reforms, favourable economic conditions, investment, partnerships and better underlying demand to boost activity growth over the course of the coming 12 months.

Input cost inflation ticked up during October, with a number of services firms reporting higher prices for energy, fuel, oil and staff. The increase in overall cost burdens was the most marked since May and surpassed the long-run series average. For the sixth consecutive month, inflation was most pronounced in the Transport & Storage category.

Responding to the sharp rise in cost burdens, services companies hiked their fees again during October. The rate of charge inflation was solid in the context of historical data, having picked up to the strongest in close to four years. Quicker increases were evident in the Transport & Storage and Information & Communication sub-sectors.

continued...

IHS MARKIT BRAZIL COMPOSITE PMI®

Private sector output growth sustained in October

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Brazil's private sector economy continued to improve in October amid the sharpest gain in new work for seven months. Business activity and employment rose further, while optimism strengthened from September.

The Composite Output Index* posted 51.8 in October, pointing to a fourth consecutive rise in private sector output. However, falling from 52.5 in September, the latest figure was consistent with a modest and softer rate of expansion. Growth was noted in both the manufacturing and service economies, and led by the former.

Aggregate new business intakes rose at the fastest pace since March. The acceleration reflected faster growth in the service sector as factory orders increased to the least extent in three months.

While service providers took on additional workers at the quickest rate in over four-and-a-half years, employment in the manufacturing industry was broadly stagnant. Across the private sector, job creation picked up to a 56-month high.

Trends for business sentiment were mixed, with confidence waning slightly at goods producers whilst strengthening at service providers.

Finally, rates of input cost and output charge inflation in the private sector accelerated to five- and seven-month highs respectively.

**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, Principal Economist at IHS Markit said:

"While there was only a mild improvement in service sector activity in October, the trends for new orders and employment were the most upbeat news from the latest PMI dataset. Companies signalled the best gain in sales since March, which supported the strongest upturn in jobs for 56 months. Firms also welcomed the approval of the pension reform which, combined with expectations of a tax reform, led to an upward revision to growth projections.

"Many service providers noted that US dollar appreciation continued to exert upward pressure on their cost burdens. October saw a sharp and accelerated rise in input prices drive output charge inflation to one of the highest rates registered in four years. While this uptick in prices charged for the provision of services may restrict demand growth, firms continued to absorb part of the additional cost burden."

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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 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.

October 2019 data were collected 11-28 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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