

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Brazil Services PMI® (with Composite PMI data)

Services activity contracts at weaker rate in July

Key findings:

- Services output drops again, but only slightly
- Renewed increase in incoming new work
- Input cost inflation accelerates

Data collected July 12-26

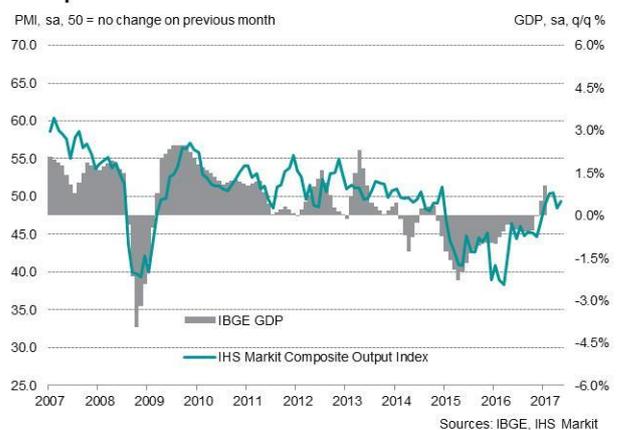
Services activity in Brazil decreased for the twenty-eighth time in the past 29 months in July, though the rate of reduction eased from June and was relatively mild. Central to the slower contraction was a renewed expansion in new business. Although job shedding was recorded again, the latest drop in staffing levels was the least pronounced since April 2015. Input costs rose at a sharp and accelerated rate, while only a fractional increase in selling prices was recorded. At the same time, business confidence slid to a 16-month low.

Rising from 47.4 in June to 48.8 in July, the latest headline seasonally adjusted **IHS Markit Brazil Services PMI Business Activity Index** was indicative of a softer and only slight contraction in output. Those survey respondents signalling lower activity cited customer losses and a challenging operating environment.

With services being the predominant sector, the softer contraction in activity noted in July resulted in a weaker decline in overall economic output. The seasonally adjusted **IHS Markit Brazil PMI Composite Output Index** was up from 48.5 in June to 49.4. Factory production continued to expand, but growth slowed to a three-month low.

In contrast to the situation in June, new business inflows at services firms rose in July. Where growth was registered, panellists stated that competitive pricing combined with advertising campaigns enabled them to secure new work. That said, the pace of expansion was marginal, with anecdotal evidence indicating that growth was stymied by subdued demand and security problems.

Composite PMI v Official GDP



By comparison, order book volumes at goods producers increased for the fifth straight month, albeit at the joint-slowest pace in this sequence.

July data pointed to a further decline in outstanding business held by service providers, with ongoing spare capacity leading companies to reduce employment. The decrease in backlogs was solid and the fastest in three months. On the other hand, the rate of job shedding lost strength, with the latest contraction among the weakest in the current 29-month period of job losses. Manufacturing employment also fell at a moderate and slower pace.

Higher prices paid for fuel and imported items reportedly caused a further increase in average input costs facing services firms. Moreover, the rate of inflation was sharp and above its long-run trend. On the other hand, purchase prices at manufacturers rose at the weakest pace in two years.

Service providers passed on to their clients part of the additional increase in cost burdens by raising their own charges during July. However, with discounts offered by some firms, the overall rate of inflation was fractional. Where charges fell, panellists mentioned that lower interest rates and

wages supported competitive pricing policies. Concurrently, goods producers lowered their charges for the first time in almost three years.

Company restructuring plans, greater investments and marketing efforts were the main reasons listed by services firms as expected to support output growth in the year ahead. There were also mentions of hopes of better economic and political conditions in the coming 12 months. That said, optimism was curbed by worries towards weak underlying demand, and the overall level of positive sentiment fell to a 16-month low. Confidence among manufacturers also weakened in July.

Comment:

Commenting on the Brazilian Services and Composite PMI data, **Pollyanna De Lima**, Principal Economist at IHS Markit and author of the report, said:

“Whereas deteriorating economic conditions across Brazil persisted in July, the latest set of PMI data showed a softer contraction in services activity and ongoing growth of manufacturing production. The downturn in private sector output eased from June and was only mild in comparison to the rates seen from 2015 to early-2017. Companies were able to secure new work by pricing competitively and undertaking marketing campaigns. In some cases, the survey’s respondents indicated that lower interest rates enabled them to offer discounts to clients in spite of rising prices for some materials.

“With Brazil’s central bank lowering its benchmark rate for the seventh straight time in late-July to support the economy, firms’ borrowing costs are likely to decline further in coming months. Posing a threat to inflation and pricing power, however, is a newly-announced increase in fuel taxation.”

-Ends-

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Notes to Editors:

The IHS Markit Brazil Services *PMI*[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The IHS Markit Brazil Composite *PMI*[®] is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 850 companies based in the Brazilian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index*[™] (*PMI*[®]) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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