

**EMBARGOED UNTIL: 03:31 (Sao Paulo) / 00:01 (UTC) March 13<sup>th</sup> 2017**

# Markit Brazil Business Outlook

## Business sentiment among Brazilian firms wanes in February

### Key findings:

- Confidence levels for business activity and new work decline
- Optimism for revenues and profits weakens
- Rates of inflation for input costs and output charges anticipated to pick up

Data collected February 10-23

Business sentiment among private sector firms in Brazil remains positive in February, with an expected rise in incoming new work anticipated to support output growth in the year ahead. However, in both cases levels of confidence are down from those registered in the prior outlook survey. Concurrently, sentiment for revenues and profits has fallen in line with forecasts of an intensification of inflationary pressures.

A net balance of +52% of Brazilian companies foresee higher activity levels in the coming 12 months. Despite recording above both the BRIC (+28%) and global (+31%) averages, the net balance is below last October's reading (+57%).

Weighing on confidence are concerns regarding political instability, sluggish consumer demand, high tax rates, the economic recession, competitive pressures and the weaker Brazilian real driving input costs higher. That said, companies see expansion into new markets, lower interest rates, new partnerships, infrastructure investment, foreign financing, product diversification and productivity improvements as opportunities for growth.

At +51% in February, the net balance for new business has recorded well above the BRIC average (+28%) and signals a strong degree of optimism among private sector firms in Brazil. However, the latest reading is down from +56% in October, reflecting weaker confidence among services firms.

### Brazil business activity expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



Sentiment levels concerning business revenues (+46%) and profits (+31%) are also down from those seen four months ago (+55% and +38%), but the highest of the four BRIC nations by far.

### Hiring plans strongest in three years

In tandem with expected growth of new work, companies foresee higher staffing levels at their units in the coming 12 months. The net balance of optimists less pessimists is at a three-year peak of +26%. Job creation looks set to be stronger at goods producers (+38%) than at service providers (+22%).

### Downward revision to capex

A net balance of +18% of private sector enterprises in Brazil expect to raise investment on capital in the year ahead. This compares with a reading of +20% in the preceding outlook survey and the global average of +20%. Whereas services firms have revised lower their capex intentions in February (+21% to +16%), manufacturers signal an improvement (one-and-a-half year high of +23%). Additionally, goods producers look set to spend a greater amount on research and development, with the respective net balance up from +16% to +18%.

## Inflation expectations in Brazil among strongest worldwide

In line with forecasts of further currency weakness, input costs facing private sector companies in Brazil are projected to rise sharply in the coming 12 months. A net balance of +50% of firms expect to face higher cost burdens, the third-highest reading globally (below only Ireland and the UK).

Efforts to protect margins have resulted in the greatest proportion of firms (on balance) planning to increase their own selling prices in the year ahead than at any time since February 2015. As is the case for input costs, output charge inflation expectations are strong in both the manufacturing and service sectors.

### Comment:

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

*“The latest outlook survey shows that Brazilian companies are swimming against the tide, with confidence levels falling in February whilst rising in almost all of the other monitored countries.*

*“Whereas manufacturers are more upbeat towards growth prospects for both new work and output than they were in late-2016, service providers’ optimism has dampened.*

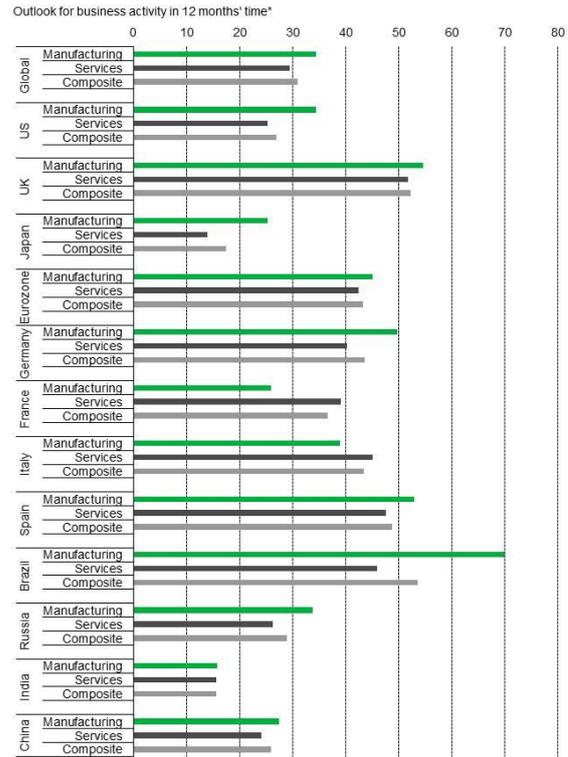
*“Nonetheless, firms still expect higher inflows of new work in the year ahead and plan to step up business activity. The relatively positive view of a healthier operating environment stems from hopes of an economic turnaround, with external markets anticipated to play an import role in the country’s economic recovery. A number of participants expect stronger demand for goods and services from foreign customers, as well as greater FDI.*

*“However, global political uncertainty means that foreign demand may not strengthen as much as hoped. Therefore, more needs to be done domestically to tackle the current recession that has troubled Brazil’s economy.”*

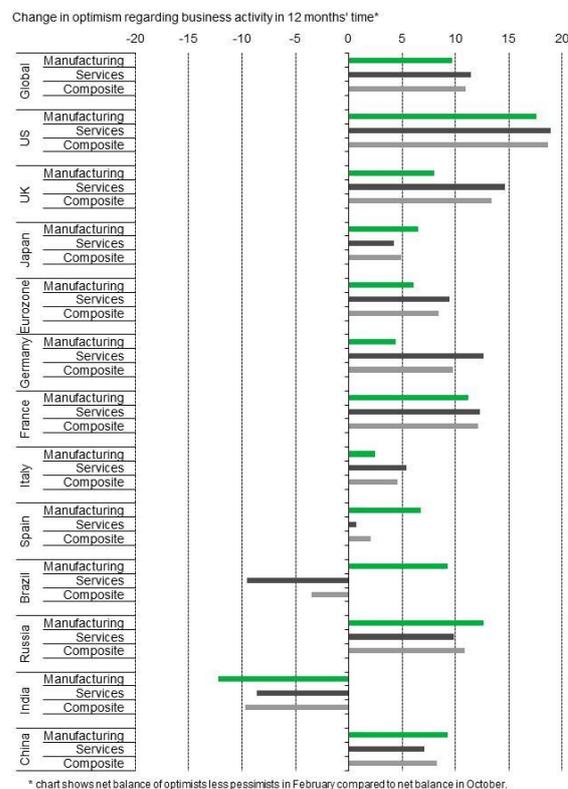
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in February



## How business activity expectations have changed since October



**For further information, please contact:****IHS Markit**

Pollyanna De Lima, Economist  
Telephone +44-1491-461-075  
Email [pollyanna.delima@ihsmarkit.com](mailto:pollyanna.delima@ihsmarkit.com)

Joanna Vickers, Corporate Communications  
Telephone +44-207-260-2234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**Notes to Editors:**

The Global Business Outlook Survey for worldwide manufacturing and services is produced by 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 February 10 and 23.

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 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, fax, 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 6,600 firms.

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