

News Release

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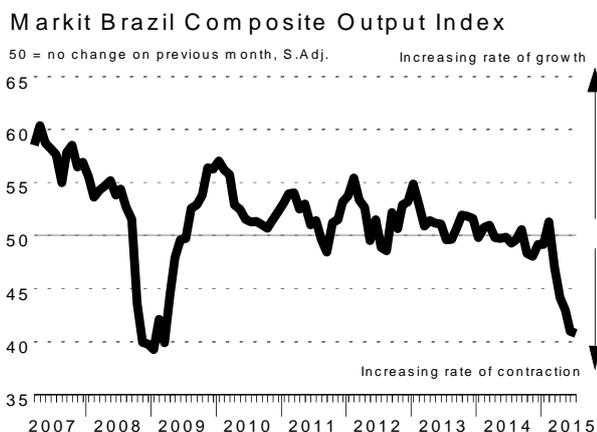
Markit Brazil Services PMI™ (with Composite PMI data)

Service sector activity drops at joint-fastest rate in survey history

Key points:

- Reduction in manufacturing production softens, while contraction of services output accelerates
- Fastest decrease in services employment since survey began in March 2007
- Private sector output falls at sharpest pace since March 2009

Historical Overview



Summary:

Down from 41.0 in June to 40.8 in July, the **Brazil Composite Output Index** was at its lowest mark since March 2009. Although both manufacturing and services output fell, the accelerated drop in private sector activity reflected a sharper retrenchment in services activity.

The seasonally adjusted **Services Business Activity Index** posted 39.1 in July, down from 39.9 in June, to remain below the no-change mark of 50.0 for the fifth successive month. Moreover, the latest reading was the joint-weakest in the survey history. The downturn remained widespread across the services categories covered by the survey, with all of the sub-sectors registering substantial falls in

business activity. The steepest contraction was at Hotels & Restaurants, followed by Transport & Storage.

The level of new business in the service economy decreased for the fifth straight month in July. The pace of reduction was slightly faster than in the prior month, but nonetheless still less severe than in May (when new business fell at the quickest pace since April 2009). Across the private sector as a whole, inflows of new orders contracted at a slower rate than in June.

The deteriorating operating environment at service providers filtered through to the labour market, with the pace of job losses in the sector accelerating to a survey record. Employee numbers were reduced at marked rates in all of the sub-sectors covered by the survey. Companies also linked lower staffing levels to cost control efforts. Job shedding at the private sector overall accelerated to the quickest since April 2009.

Services cost burdens continued to rise in July, reflecting general inflationary pressures, exchange rate factors and client fee adjustments. The rate of increase was at an 81-month high and was the third-fastest in the survey history. Conversely, cost inflation in the manufacturing sector softened and was below its long-run trend.

July data highlighted further increases in average selling prices. Tariffs were raised in response to general inflationary pressures and increased cost burdens. However, rates of increase eased across both the manufacturing and service sectors, as strong competition restricted some firms' pricing power.

Services companies remain optimistic about future business conditions, with 29% expecting activity to be higher in one year's time. This reflected expectations of economic recovery in the coming months.

Comment:

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

“July’s PMI data for Brazil show an increasing divergence in sector trends, with reductions in activity and new orders moderating at manufacturers, but accelerating at service providers. Input price inflation also softened at goods producers, whereas the rise in cost burdens faced by services firms accelerated sharply to the third-fastest in the history of the series.

“The overall scenario, however, remains bleak. The survey indicates that the combined output of the manufacturing and service sectors suffered the largest fall since early-2009. Weak demand, high interest rates, fiscal tightening, strong inflation and rising unemployment are expected to continue to hamper activity in forthcoming months.”

-End-

For further information, please contact:

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@markit.com

Joanna Vickers, Corporate Communications
Telephone +44207 260 2234
E-mail joanna.vickers@markit.com

Notes to Editors:

The Markit Brazil Services *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 350 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The 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 700 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.

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 Markit. Please contact economics@markit.com.

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About PMI

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