

**EMBARGOED UNTIL: 00:01 (UTC) November 13<sup>th</sup> 2017**

# IHS Markit Brazil Business Outlook

## Firms forecast growth of new business, output and employment

### Key findings:

- Sentiment regarding business activity weakens slightly, but is second-highest worldwide
- Expectations for new business improve
- Manufacturers and service providers plan to hire extra staff

Data collected October 12-26

Private sector companies in Brazil are at their least optimistic about future business activity growth since mid-2016, reflecting a slide in sentiment among goods producers. Nonetheless, confidence is the second-highest globally, behind Ireland. The latest IHS Markit Business Outlook survey also indicates that firms envisage new business growth to support greater corporate earnings and, in turn, job creation. Cost inflation expectations have been revised lower and fewer firms (on balance) are planning to raise their selling prices than noted in the June survey period.

The anticipated rise in new business inflows is underpinned by beliefs that lower interest rates will support future investments, while companies also mention a more positive domestic economy. Manufacturers predict greater inflows of new work from abroad and comment that new products will be brought into the market. Services companies foresee greater inbound tourism, which they expect will be backed by favourable exchange rate movements, alongside stronger demand from internal clients.

Manufacturers and service providers expect new order growth over the coming 12 months, with sentiment stronger among the former. This is despite confidence ticking higher in the service sector and dipping at goods producers. As for output, optimism across the private sector as a whole is down to the lowest degree since June 2016 amid worries about political issues.

### Brazil business activity expectations



### Employment & Investment Plans

Brazilian enterprises are planning to expand their operations in the year ahead by taking on additional workers. Hiring intentions are unchanged since June, and remain above the global average. Employment levels are predicted to increase in both the service and manufacturing sectors, with confidence slightly higher among businesses operating in the latter.

Goods producers look set to increase their spending on both capital and research & development. Sentiment towards the year-ahead outlook for capex has climbed to the highest since June 2011, while that for R&D is the joint-best since early-2014. Similarly, service providers' optimism for capital expenditure is the strongest in a year. Anecdotal evidence suggests that plans have been revised higher in line with lower borrowing costs and a favourable demand environment.

### Inflation Expectations

Input costs faced by private sector companies in Brazil are projected to remain on an upward trajectory over the course of the coming 12 months. Product shortages, tax rates, volatility in currency markets and climate change are the main factors anticipated to result in greater cost burdens. These risks, alongside

political stalemate, have also been cited as having the potential to hamper overall growth.

Firms look set to pass greater cost burdens through to their clients by raising their selling prices, although the net balance of panellists predicting higher charges in the year ahead is the lowest since June 2016. Evidence indicates that pricing power is likely to be restricted by competitive conditions at home and abroad.

### Corporate Earnings

Since the burden of higher costs is predicted to be shared with clients and new business growth is projected to pick up, corporate earnings are expected to improve in the coming 12 months. Degrees of optimism regarding both business revenues and profitability are at their highest in one year.

### Comment:

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

*“Growth prospects in Brazil remain bright, with companies in the manufacturing and service sectors expecting increases in new business and output. Confidence in regards to the latter is the weakest since June 2016, however, reflecting concerns about ongoing political issues and the paralysis it causes.*

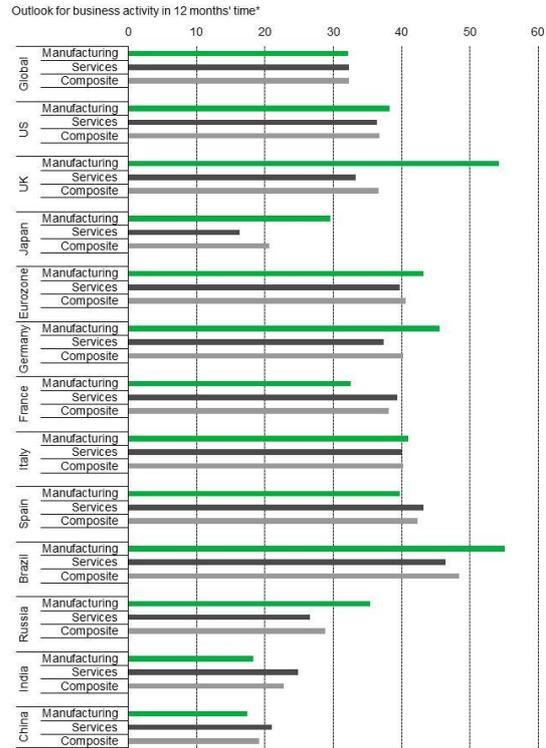
*“Next year’s presidential election is forecast by many to lead to a more favourable operating environment. Firms are planning to improve their chances of success by expanding product ranges and investing in both capital and research & development. The upbeat mood towards investments is underpinned by lower interest rates.*

*“The nation’s labour market is likely to benefit from this, with companies indicating that jobs will be created in the year ahead as they boost capacity to cope with greater workloads.”*

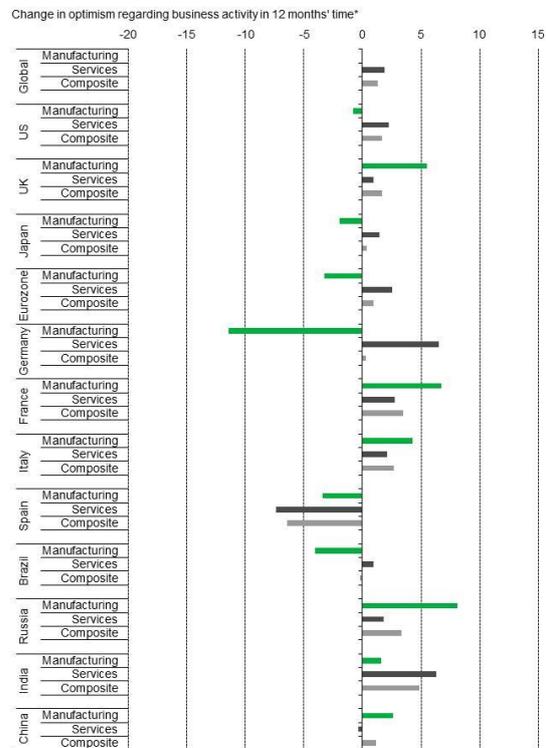
### -Ends-

Full data available on request from [economics@ihsmarkit.com](mailto: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 12 and 26.

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, 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 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 7,000 firms.

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