

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION

EMBARGOED UNTIL: 10:00 (Sao Paulo) / 13:00 (UTC) September 5th 2017

IHS Markit Brazil Services PMI[®] (with Composite PMI data)

Downturn in services activity eases in August

Key findings:

- Output decreases at weakest rate in three months
- Marginal rise in new business inflows
- Input cost inflation accelerates, while selling prices fall

Data collected August 11-25

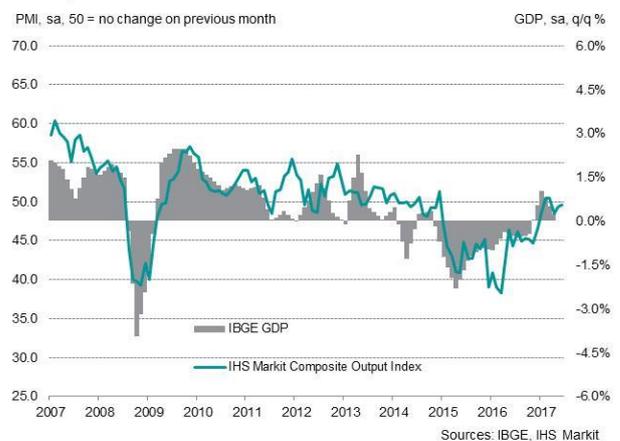
The Brazilian service sector moved closer to stabilisation in August, as a second consecutive monthly rise in new work contributed to a weaker fall in output that was only slight overall. Part of the upturn in workloads was supported by lower prices charged by businesses, with firms offering discounts despite a pick-up in input cost inflation. There remained evidence of spare capacity as backlogs decreased markedly notwithstanding another round of job shedding. Looking ahead, panellists expect higher activity in the coming 12 months. Moreover, the level of confidence was the strongest since September 2016.

The headline seasonally adjusted **IHS Markit Brazil Services PMI Business Activity Index** posted a three-month high of 49.0 in August. Despite rising from July's reading of 48.8, the latest figure was still indicative of an overall decline in output. Decreases were evident in Renting & Business Activities, Transport & Storage and Other Services.

The seasonally adjusted **IHS Markit Brazil PMI Composite Output Index** posted a three-month high of 49.6 in August. The reading was above July's 49.4, thereby signalling a slower and only marginal decline in private sector activity. In contrast to the trend seen for services, manufacturers recorded further growth of production.

Services new work increased for the second month in succession, but at a marginal pace that was little-

Composite PMI v Official GDP



changed since July. Where growth was reported, panellists commented on a greater number of client requests and higher bookings. A further upturn in factory orders was recorded in August, with growth picking up to a three-month high.

Some service providers lowered their selling prices to secure new business. Across the service sector as a whole, output charges fell at a marginal pace as the vast majority of survey participants kept their prices unchanged over the month. Conversely, factory gate charges increased.

Despite the rise in new work, services companies continued to report spare capacity in August. Furthermore, outstanding business levels declined at a marked rate that was the quickest in six months. Similarly, goods producers registered a marked drop in backlogs in the latest reporting period.

Staffing levels at services companies declined for the thirtieth month in a row. Having picked up to the fastest since May, the rate of job losses was solid. Anecdotal evidence indicated that payroll numbers were trimmed due to ongoing efforts to reduce operational costs. Manufacturing posts also decreased, though at one of the weakest rates in the current 30-month period of contraction.

Input costs facing service providers rose further in August, with the rate of inflation climbing to a seven-month peak. In most cases, companies linked this to higher fuel prices, though there were also mentions of increased costs for printing services, rent and energy. With manufacturers also signalling stronger inflationary pressures, input costs across the private sector as whole rose at the quickest pace since January.

Services firms meanwhile retained an optimistic view towards growth prospects. Almost 62% of panellists reported positive expectations regarding the year-ahead outlook for business activity, with confidence boosted by anticipations of better market conditions, new proposals, greater investments and lower interest rates. In fact, the level of sentiment climbed to an 11-month high. On the contrary, optimism among goods producers waned on the back of concerns around political issues and the upcoming 2018 presidential election. On average, manufacturers were at their least confident since April 2016.

Comment:

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

“The downturn in Brazilian services activity eased further in August, moving the sector closer to stabilisation. This, combined with ongoing growth of manufacturing production, left private sector activity down only fractionally in the latest survey period. An improvement in service providers’ future expectations to the highest for nearly a year provides positive news, although the overall picture remains one of a bumpy road to economic prosperity.”

-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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