

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

### Brazilian services activity falls at quickest pace since February 2017

#### Key findings:

- Renewed decline in new work leads to sharper contraction in output
- Firms lower payroll numbers further
- Positive sentiment fades in September

Data collected September 12-25

The current political and economic situation in Brazil continued to take its toll on the service sector during September. Firms experienced a renewed decrease in new business and reported further falls in both output and employment. Weighing on companies' ability to secure new work was a solid increase in average selling prices which, in turn, was a result of sustained sharp cost pressures in the sector. Business sentiment languished, with politics remaining a focal point.

Falling to a 19-month low of 46.4 in September from 46.8 in August, the seasonally adjusted IHS Markit **Brazil Services Business Activity Index** pointed to a marked and accelerated drop in output. Political tensions, economic fragility, weak demand and client defaults were among the factors behind the decline in business activity, according to respondents. For the third quarter of 2018 as a whole, the Business Activity Index was at 47.8, the lowest quarterly average since Q4 2017.

Manufacturing continued to fare better than the service sector, recording an increase in production levels for the third month in a row in September. That said, the rate of growth eased to only a marginal pace that was the weakest in this sequence. As such, the seasonally adjusted IHS Markit **Brazil Composite PMI Output Index** fell for the second successive month from 47.8 in August to 47.3, its lowest reading since June. The quarterly average (48.5) was the weakest seen since early-2017.



New work received by service providers decreased for the first time in nearly a year amid reports of fewer client numbers, real depreciation, weak consumer purchasing power and election campaigns. That said, the pace of contraction was marginal overall. Conversely, manufacturing new order growth picked up to the quickest since April.

Faced with fewer workloads, services companies made inroads into their backlogs, which decreased at the second-sharpest rate in the survey history. This, coupled with ongoing efforts to curb outlays, led some firms to reduce employment again. The pace of job shedding was solid, but weaker than seen during August. Of the five broad areas of the service economy, Finance & Insurance was the only one to register net job creation. Manufacturing staff numbers meanwhile fell for the second month in a row, albeit marginally.

Input cost inflation gathered pace in September amid reports of higher prices paid for cooking gas, energy, food and fuel. Firms also indicated that collective bargaining and real depreciation contributed to upward cost pressures. Notably, manufacturers faced the steepest monthly increase in average purchase prices since the respective survey began in February 2006.

To protect margins in the face of rising costs, Brazilian services companies increased their charges further in September. Moreover, the rate of selling price inflation hit a 32-month peak. Manufacturers similarly raised output charges to the greatest extent since early-2016.

September data showed some loss of confidence among service providers in Brazil. Overall, businesses remained optimistic towards the 12-month outlook for activity, buoyed by hopes that economic conditions will normalise and investments resume after the presidential elections. Restricting sentiment were concerns regarding the new government's needs to address the fiscal deficit and potential privatisation drives. It was a contrasting situation in the manufacturing sector, where business confidence reached the highest since March.

## Comment:

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

*"Things went from bad to worse for the service sector in September, with a renewed decline in new orders dragging down overall business activity at the fastest rate for over one-and-a-half years. With manufacturing production growth also losing momentum during the month, the private sector ended the third quarter with its steepest decline in output since June."*

*"September data also signalled a further shrinkage of the private sector workforce as companies looked to streamline staffing numbers. The pace of job cuts was slightly slower than in August, but still the second-quickest seen over the past year."*

*"The survey highlighted the continuation of a challenging operating environment for business, with reports of political tensions weighing on demand and clients in default. Part of the problem remains that businesses are unable to stimulate demand through more competitive pricing, as there's a constant need to pass on at least part of the burden of rising costs to customers. September saw output price inflation spike to its highest in over three-and-a-half years partly due to the effects of the weak real, with both goods and services prices having an upward effect on the inflation rate."*

*"Many businesses are holding on to hopes that things will start to improve once the elections are out of the way. Companies, however, are under no illusions that the elections will provide an instant remedy, highlighting that any new government will have the difficult job of finding a balance between stimulating the economy and addressing the considerable fiscal deficit."*

-Ends-

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### Notes to Editors:

The IHS Markit Brazil Services *PMI*<sup>®</sup> 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*<sup>®</sup> 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*<sup>™</sup> (*PMI*<sup>®</sup>) 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](mailto:economics@ihsmarkit.com).

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