

**Purchasing Managers' Index™**  
**MARKET SENSITIVE INFORMATION**

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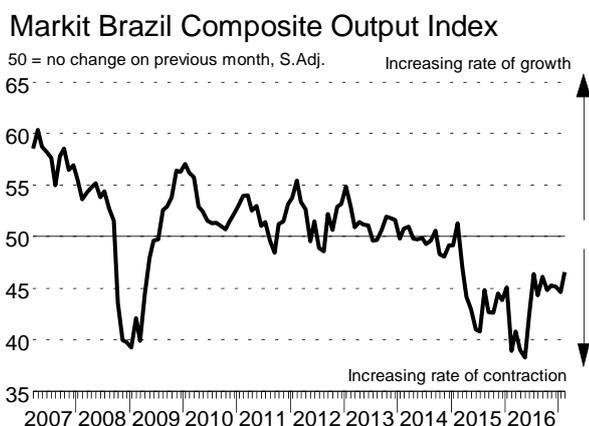
**Markit Brazil Services PMI™ (with Composite PMI data)**

**New business inflows rise for first time in four months**

**Key findings:**

- Service sector drives upturn in new work as manufacturing order books fall further
- Activity and employment continue to decrease across both sectors
- Service providers offer price discounts despite sharp increase in input costs

Data collected February 10-23



Source: IHS Markit.

February data indicated that business conditions in Brazil's service sector remained challenging as activity continued to fall and firms reduced workforce sizes amid the ongoing economic recession. That said, demand showed tentative signs of a rebound, with new business inflows up for the first time since October 2016. Meanwhile, higher prices for a wide range of items caused another sharp increase in input costs. The burden was borne by firms, however, as selling prices were lowered for the eleventh month running.

At 46.4 in February, the seasonally adjusted **Markit Brazil Services Business Activity Index** posted in contraction territory for the twenty-fourth month in row. However, rising from January's 45.1 to its highest level since March 2015, the latest reading highlighted a slower rate of reduction.

Manufacturers also registered a slower drop in production during February. As a result, the seasonally adjusted **Markit Brazil Composite Output Index** was up from 44.7 in January to a 23-month high of 46.6. The latest reading was, nevertheless, indicative of a marked rate of contraction in private sector output overall.

Demand for services reportedly improved in February, thereby underpinning growth of new business. The upturn in new work was only the second in two years, with expansion also noted in October 2016. Nevertheless, the pace of increase was slight overall. Conversely manufacturers' new projects fell further, albeit much more slowly than in January.

Service providers continued to allocate resources to the completion of outstanding work, as indicated by a nineteenth successive monthly drop in backlogs. Having gathered pace since January, the rate of depletion was sharp. Similarly, work-in-hand at goods producers dipped sharply.

The lack of pressure on capacity combined with cost-cutting initiatives led service providers to lower payroll numbers in February. Employment dropped at a steep rate, with the latest fall the twenty-fourth in as many months. Around one-in-five panellists reported lower payroll numbers. Concurrently, manufacturing jobs decreased sharply but at the slowest pace in over a year.

Input cost inflation facing services firms softened to the weakest since November 2015 but remained sharp and above the long-run survey average. Among the items reported to be up in price were fuel, electricity, paper, office supplies and medicine. By comparison, purchasing costs at manufacturers rose at the slowest pace in three months.

Efforts to invigorate demand reportedly led Brazilian services firms to lower their own selling prices again during February. That said, the rate of discounting was marginal overall and the second-slowest in the current 11-month sequence of falling

output charges. Conversely, factory gate charges rose further and at the quickest rate since last June.

Almost 50% of service providers expect business activity to increase over the course of the coming 12 months, with hopes of an economic rebound and political stability boosting confidence. The level of sentiment improved since January but remained below the series average. Manufacturers' optimism also improved, reaching its highest mark in the series near five-year history.

**Comment:**

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

*“Disappointing but not overly disheartening PMI data for Brazil’s service sector show further sharp contractions in business activity and employment in February, as companies continue to suffer from the ongoing economic recession. Nevertheless, there were bright spots in the latest numbers, which indicate a stabilisation might be in sight. Some firms benefited from improved, although still tepid, demand and inflows of new work increased for the second time in the past two years. What’s more, confidence picked up on the back of hopes of an economic turnaround.”*

-Ends-

**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 +44207 260 2234  
E-mail [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**Notes to Editors:**

The 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 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.

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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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