

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION

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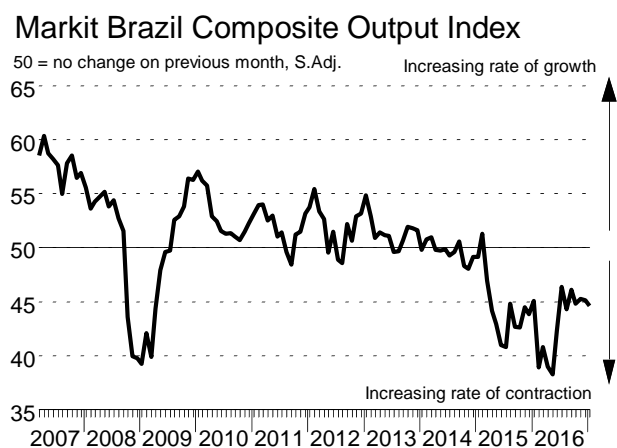
Markit Brazil Services PMI™ (with Composite PMI data)

Services activity falls sharply amid further decline in new business

Key findings:

- Output dips for twenty-third consecutive month in January
- Incoming new work falls again, albeit marginally
- Rate of cost inflation accelerates

Data collected January 12-26



Source: IHS Markit.

Brazilian service sector activity decreased for the twenty-third straight month in January, as new business continued to fall. The reduction in output remained sharp, but incoming new work declined at the slowest pace in the current three-month sequence of contraction. Challenging economic conditions combined with fewer workloads led companies to cut payroll numbers again. Meanwhile, input cost inflation accelerated, while output charges were lowered amid ongoing efforts to stimulate demand.

Unchanged from December's reading of 45.1, the seasonally adjusted **Markit Brazil Services Business Activity Index** pointed to a further sharp drop in output across the sector at the start of 2017. January's fall was the twenty-third in as many months, with the latest reduction linked to an increasingly challenging economic scenario,

shortages of working capital and a lack of new business.

With manufacturers seeing a quicker drop in production, the downturn in output across the private sector as a whole gathered pace. The seasonally adjusted **Markit Brazil Composite Output Index** was down from 45.2 in December to a five-month low of 44.7 in January.

Incoming new work at service providers declined for the third month running, with survey participants reporting subdued demand conditions. However, the rate of contraction eased to a marginal pace that was much slower than the average recorded over 2016 as a whole. By comparison, order books at goods producers fell at the quickest pace in eight months.

January data highlighted an ongoing lack of pressure on the capacity of service providers' operations, as outstanding business decreased for the eighteenth month running. Although the slowest since October 2016, the rate of backlog depletion was marked. In the manufacturing economy, work-in-hand fell at the fastest rate since last July.

Spare capacity, as well as cost-reduction initiatives and tough economic conditions, reportedly led service providers to lower their payroll numbers again. The rate of job losses was steep and accelerated from that seen in December. Job shedding among manufacturers softened but remained sharp overall.

Higher prices for food and petrol contributed to another monthly increase in average input costs facing service providers. Furthermore, the rate of inflation picked up to the highest in three months and was stronger than its long-run average. Similarly, purchasing prices at manufacturers rose at the fastest pace since August 2016.

In spite of greater cost inflationary pressures, services firms lowered their selling prices in January as part of ongoing efforts to boost demand. That said, the rate of discounting softened to the weakest since September 2016. On the other hand,

goods producers raised their charges for the twenty-eighth straight month, with the pace of inflation at a seven-month peak.

Service providers remained upbeat towards the year-ahead outlook for business activity, with over 49% of survey participants forecasting growth. Nevertheless, the overall degree of confidence fell to a seven-month low. Optimism largely reflected hopes of an economic recovery, while concerns regarding the speed of the rebound restricted positive sentiment. Newly-released Future Output data for the manufacturing industry showed that goods producers were at their most positive since August 2016.

Comment:

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

“Brazil’s service sector started 2017 in the same way as it ended 2016, with new orders, employment and business activity all falling. Persistently weak demand and the ongoing economic crisis continue to impact on the sector’s performance, with firms responding to the downturn by slashing payroll numbers and lowering their selling prices for a further month. Companies hold some hopes that the situation will improve in 2017, but concerns towards the speed of the economic rebound weigh on overall confidence.”

-Ends-

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The 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 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.

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.

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