

Purchasing Managers' Index[™]
MARKET SENSITIVE INFORMATION

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

Services activity falls amid renewed decline in new work

Key findings:

- Output returns to contraction...
- ...mirroring trend for new work
- Services companies offer discounts in attempts to win new business

Data collected October 12-26

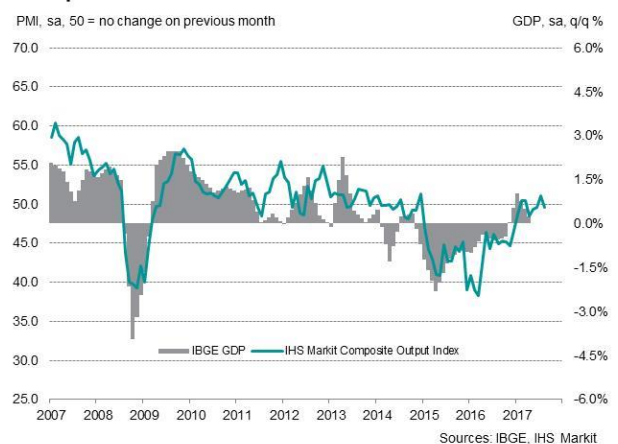
The Brazilian service sector returned to contraction in October, with companies reporting lower business activity and new work following expansions in the preceding survey period. The subdued demand environment led to another monthly decline in payroll numbers, with a further drop in backlogs highlighting ongoing spare capacity among firms. Input prices continued to rise sharply, while charges were lowered in line with efforts to boost sales. At the same time, lingering political issues weighed on confidence, with optimism at a three-month low and well below the series average.

Falling from 50.7 in September to 48.8 in October, the headline seasonally adjusted **IHS Markit Brazil Services PMI Business Activity Index** pointed to a renewed contraction in output. The drop reportedly reflected subdued consumer confidence amid political and economic uncertainties.

Although factory production rose further, the upturn was insufficient to offset the reduction in services activity and private sector output fell. The seasonally adjusted **IHS Markit Brazil PMI Composite Output Index** was down from 51.1 in September to 49.5 in October.

New business at services firms decreased for the first time in four months, which panel members attributed to a competitive environment as well as weak demand from both the public and private sectors. However, as was the case for output, the rate of contraction in new work was slight. In contrast, goods producers saw an eighth successive monthly rise in order book volumes.

Composite PMI v Official GDP



The drop in inflows of new orders at service providers occurred despite another monthly decline in selling prices. Supported by falling interest rates and staff costs, businesses attempted to stimulate demand by way of charging less for their services. The decrease in output prices was the third in as many months, though only slight. Conversely, factory gate charges rose further, with inflation at a seven-month high.

Input costs facing services companies continued to rise, which panel members linked to higher prices paid for fuel, energy, paper, steel and food. The rate of cost inflation remained elevated in the context of historical survey data. Purchasing prices at manufacturers also increased at a robust pace.

Attempts to curb operating expenses, alongside subdued demand conditions, led some services companies to lower payroll numbers in October. Employment was down for the thirty-second month in succession. Buoyed by sustained increases in new work, factories created jobs for the first time in over two-and-a-half years.

There was evidence of ongoing spare capacity among services companies, as outstanding work declined further despite jobs continuing to be shed. Although marked, the pace of backlog depletion

was the least pronounced since June. Goods producers were also far from operating at full capacity, as highlighted by a marked drop in unfinished business.

The degree of optimism towards the year-ahead outlook for business activity slipped to a 19-month low in October, with private sector companies seeing political uncertainty as a threat to growth prospects. Both manufacturers and service providers were less confident than in September.

Comment:

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

“Uncertainty among Brazilian consumers and businesses negatively impacted on the service sector in October, as evidenced by renewed declines in new work and dwindling sentiment. The majority of panellists attributed these outcomes to subdued demand conditions alongside political and economic issues.

“With new business in short supply and input prices rising, services jobs continued to fall. At the same time, margins came under pressure as firms offered discounts amid endeavours to boost sales.”

-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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