

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

Services activity returns to growth amid sustained upturn in new work

Key findings:

- Output expands for first time in five months
- New business growth accelerates to fastest since April
- Employment decreases at weakest pace in almost two-and-a-half years

Data collected September 12-26

Service sector output in Brazil returned to growth in September following a four-month sequence of contraction, supported by ongoing expansion in new business. Although the upturn was insufficient to generate jobs, the latest reduction in employment was the least pronounced since April 2015. Rising fuel prices resulted in greater cost burdens facing service providers, while lower interest rates and competitive pressures led to discounted prices charged to customers.

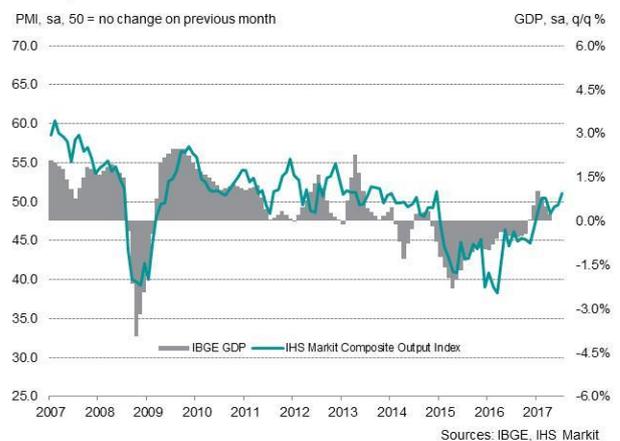
At 50.7 in September, up from 49.0 in August, the headline seasonally adjusted **IHS Markit Brazil Services PMI Business Activity Index** posted above the 50 no-change mark for the first time since April. The latest figure signalled a renewed expansion in output that was slight overall.

Factory production continued to increase in September, with growth picking up to the strongest since May. Subsequently, private sector activity rose. The seasonally adjusted **IHS Markit Brazil PMI Composite Output Index** was at 51.1, climbing from 49.6 in August and registering in expansion territory for the first time in four months.

Demand conditions reportedly improved during September, resulting in another rise in new business received by private sector companies. The increase remained broad-based across the manufacturing and service categories, with the quicker rate of expansion noted in the former.

Survey data continued to point to spare capacity among services providers, with backlogs falling for

Composite PMI v Official GDP



the twenty-sixth straight month and at the quickest rate in the year-to-date. Outstanding work at goods producers also declined, though at the slowest pace in one-and-a-half years.

Services payroll numbers were lowered (on average) further. Nonetheless, the rate of job shedding eased considerably from August to a pace that was modest relative to the average over the current 31-month period of reduction. A similar trend was seen regarding manufacturing jobs, which fell at a relatively slight pace.

Services companies in Brazil were strongly optimistic towards the prospects for output in the year ahead. Improving economic conditions, expectations of further demand growth and new proposals were the main factors boosting confidence in September. Moreover, the level of positive sentiment was the highest recorded in almost four years. With confidence also improving among goods producers, the degree of optimism across the private sector as a whole reached a one-year peak.

Price indicators showed ongoing pressure on services companies' margins in September. Input costs continued to increase amid reports of higher prices paid for fuel. Although sharp and above its

long-run average, the rate of inflation eased from August's seven-month high. Conversely, cost inflationary pressures facing manufacturers intensified to the most pronounced since March.

Services charges decreased for the second straight month, which companies linked to lower borrowing costs, successful price negotiations by customers and competition for new work. The rate of discounting was, however, only fractional as the vast majority of firms kept their charges unchanged. Whereas factory gate prices rose further, the rate of inflation eased and was marginal.

Comment:

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

"It's uplifting to see service providers joining their manufacturing counterparts in recording output growth during September. Ongoing increases in new work paint a brighter picture regarding the current demand environment across Brazil, with improved business sentiment also boding well for the outlook."

"When looking at the three-month trend for the Composite Output Index, it's clear that private sector firms enjoyed a comparatively better quarter in Q3. With the average reading being the highest in three-and-a-half years, we are likely to see GDP growth picking up from the 0.2% rise reported in the second quarter of 2017."

-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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