

**Purchasing Managers' Index™**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 10:00 (Sao Paulo) / 12:00 (UTC) January 4th 2018**

## IHS Markit Brazil Services PMI<sup>®</sup> (with Composite PMI data)

### Private sector activity drops due to subdued performance in services

#### Key findings:

- Services output falls further, while factory production rises solidly
- New orders expand at goods producers but stagnate at service providers
- Manufacturing employment grows, while services jobs decrease again

Data collected December 5-18

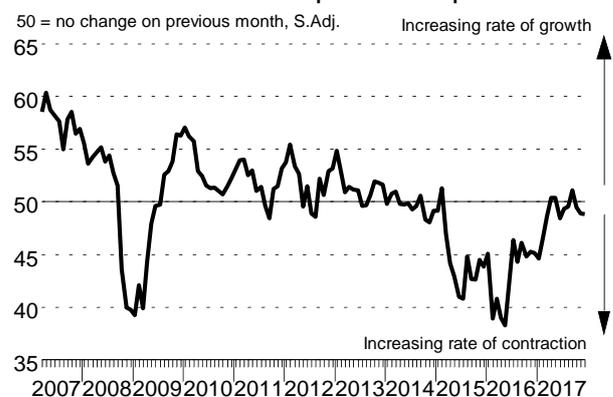
PMI data for December continued to point to imbalanced sector performances across Brazil, with manufacturing growth sustained and services remaining in contraction territory at the end of 2017. Sluggish demand for services resulted in stagnation of new business inflows and further declines in activity and employment. Although output and jobs rose in the manufacturing industry, the expansions were insufficient to offset the service sector decreases and reductions were subsequently noted at the composite level.

At 48.8 in December, little-moved from 48.9 in November, the seasonally adjusted **IHS Markit Brazil PMI Composite Output Index** pointed to a decline in private sector activity across the nation. The reduction was the third in as many months and reflected another downturn in services output, with manufacturing firmly in expansion mode.

Posting 47.4 in December, the headline seasonally adjusted **IHS Markit Brazil Services PMI Business Activity Index** showed a third consecutive monthly reduction in output. Rising from 46.9 in November, however, the latest figure was indicative of a slower pace of contraction that was moderate overall.

The decline in services activity reportedly stemmed from a combination of economic and political instability as well as low bookings. On average, new business stagnated in December, after having increased marginally in the preceding survey period. By comparison, factory orders rose strongly.

#### IHS Markit Brazil Composite Output Index



There remained evidence of spare capacity among service providers, as outstanding business volumes fell for the twenty-ninth month in succession. The drop was marked and the quickest since September. In turn, this resulted in jobs being shed across the sector. The contraction was the thirty-fourth in as many months, albeit moderate overall. Some survey members indicated having lowered employment due to ongoing cost-reduction efforts. On the other hand, manufacturers took on additional staff again, and to the greatest extent in nearly five years.

Anecdotal evidence indicated that lower average staff bills, alongside cheaper borrowing costs, restricted the extent to which input prices in the service sector rose at the end of 2017. Indeed, the rate of cost inflation softened to its lowest mark in almost three years. Where cost burdens rose, panellists reported higher prices paid for utilities, petrol and raw materials. With manufacturers' purchasing costs also increasing to a lesser degree, inflation across the private sector as a whole eased to the joint-lowest since March.

Service providers' selling prices were unchanged, on average, as efforts by some firms to stimulate demand via discounting were offset by other companies raising their charges to protect margins. Factory gate charges meanwhile increased.

Services firms predicted higher output in 2018 amid projections of improved economic conditions, advertising campaigns and new offerings. Despite rising from November's 20-month low, the level of confidence was weak in the context of historical survey data. Evidence provided by monitored firms indicated that some were worried that Brazil's political and economic frameworks could restrict growth. Concurrently, optimism in the goods-producing sector climbed to a ten-month peak.

### Comment:

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

*"Brazil's private sector performance was hampered by vulnerabilities in its principal services segment. The uneven trends for output have been registered throughout the final quarter of 2017, when increases were noted in the manufacturing industry and reductions in services.*

*"The magnitude of the downturn in activity across the private sector as a whole was mild in comparison to those seen earlier in the year, but points to some susceptibilities in the economic recovery. Of particular concern was a thirty-fourth consecutive monthly decline in jobs, although the latest fall was centred on the service category.*

*"Demand for goods remains on the rise, boding well for factories' outlook. In contrast, a reversal of fortunes for services bookings point to challenging months ahead for companies in the sector. In this competitive framework, service providers may have to resort to substantial price discounting to stimulate demand."*

-Ends-

## For further information, please contact:

### IHS Markit

Pollyanna De Lima, Principal 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 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](mailto:economics@ihsmarkit.com).

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