

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

Private sector output falls at fastest pace in 16 months amid nationwide truckers' protest

Key findings:

- Services activity falls further, manufacturing production enters contraction territory
- Broad-based decline in employment
- Overall input cost inflation hits 23-month peak

Data collected June 12-26

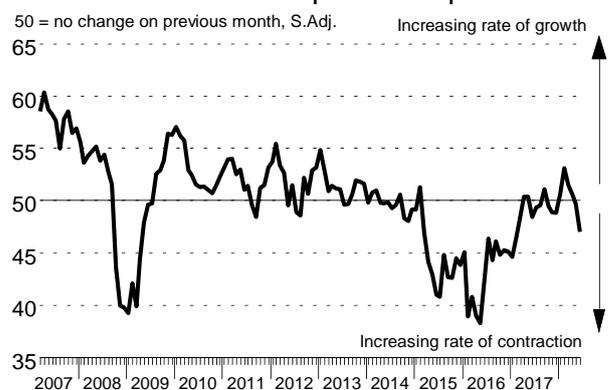
The Brazilian private sector economy shrank further in June as manufacturers joined their services counterparts in posting contracting activity. The subdued performance was largely attributed to truck drivers' strikes across the country, which also led to falling new business and spiking inflation. To curb expenses and protect margins, companies reduced headcounts and raised their own selling prices.

At 47.0 in June, the seasonally adjusted IHS Markit **Brazil Composite PMI Output Index** was down from 49.7 in May, pointing to the sharpest reduction in private sector activity in 16 months. Manufacturing production fell for the first time since February 2017, while the contraction in services activity was the second in as many months.

The seasonally adjusted IHS Markit **Brazil Services Business Activity Index** fell from 49.5 in May to 47.0 in June, highlighting the fastest reduction in output since November 2017. The downturn was linked to weak demand, truckers' strikes and market uncertainty. The worst-affected sub-sector was Transport & Storage, while Finance & Insurance was the only segment to register growth.

Although new business placed with service providers continued to grow, the upturn moderated to the slowest in the current six-month sequence of expansion and was marginal. Anecdotal evidence suggested that sales had been secured in line with new offerings and marketing efforts, but that growth was hampered by a nationwide truckers' protest.

IHS Markit Brazil Composite Output Index



Factory orders decreased solidly in June, ending a 15-month sequence of expansion and offsetting growth of services new work. As a result, private sector sales declined for the first time in one year.

Overall, service providers forecast higher output in the coming 12 months. Optimism reflected predictions of better market conditions after the presidential elections. Additionally, restructuring plans, new offerings and advertising campaigns were among the reasons underpinning confidence. Despite improving from May's 26-month low, the level of positive sentiment remained weak by historical standards. By comparison, manufacturers' confidence weakened to an eight-month low.

Input costs at services firms continued to rise at the end of the second quarter, with the rate of inflation picking up to a 17-month peak. Survey respondents reported higher prices paid for food, fuel and energy. The steepest increase in cost burdens was seen in Transport & Storage, as has been the case for almost one year. Across the manufacturing industry, purchasing prices rose to the greatest extent in nearly ten years.

To restrain overall expenses, Brazilian service providers lowered payroll numbers further. The latest fall in headcounts was the fortieth in as many months, though moderate compared to those seen

at the peak of job cuts in 2016. With manufacturing jobs showing a renewed decline, employment across the private sector as whole remained in contraction territory.

After having offered discounts midway through the second quarter, services firms increased their selling prices in June. The rate of charge inflation was modest, but the quickest since February 2016. Goods producers likewise hiked their charges, with inflation at a 28-month high.

Finally, outstanding business at services firms declined in June, marking a 35-month sequence of depletion. The pace of reduction was marked, but eased to the slowest in three months. Conversely, work-in-hand at manufacturers increased at the sharpest pace in the survey history as blockages led to longer delivery times among vendors and shortages of inputs at goods producers.

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 already fragile private sector endured a tough month in June as truckers’ strikes hit the economy heavily. The disruptions drove services activity further into contraction, while the 15-month sequence of rising manufacturing production came to an end.

“Strong demand for scarce materials, due to blockages, pushed overall input price inflation to a near two-year peak. Cost pressures were most felt in the manufacturing industry, where purchasing prices displayed the steepest increase in just under ten years.

“In efforts to compensate for higher operating expenses, companies hiked their selling prices and lowered payroll numbers. Prices charged for goods and services rose at a much weaker pace than costs, but one that was nonetheless the most marked in 28 months. For the labour market, the end result was a fortieth successive decline in private sector jobs.”

-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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