

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

Services activity falls despite further upturn in new business

Key findings:

- Output dips again, though at softest pace in two years
- Second consecutive monthly rise in incoming new work
- Services charges lowered further amid efforts to boost demand

Data collected March 13-28

Markit Brazil Composite Output Index



Source: IHS Markit.

Brazil's ongoing economic malaise continued to take a toll on service providers, as highlighted by further declines in business activity and employee headcounts. However, incoming new work rose for the second straight month in March, partly supported by lower prices charged by firms. On the other hand, input costs increased at a sharp rate reflecting higher prices paid for food and fuel. Meanwhile, confidence towards growth prospects for the year ahead improved over the month.

Posting below the crucial 50.0 threshold for the twenty-fifth month running, the seasonally adjusted **Markit Brazil Services Business Activity Index** pointed to another contraction in output across the sector. However, up from 46.4 in February to a two-year high of 47.7 in March, the latest reading

indicated a softer rate of reduction that was moderate overall.

On the other hand, manufacturers posted the first increase in production in over two years. This contributed to a rise in the seasonally adjusted **Markit Brazil Composite Output Index** from 46.6 in February to a 25-month high of 48.7. Nevertheless, the latest reading was still consistent with a contraction in private sector output overall.

Amid reports of competitive prices charged to customers, demand for Brazilian services improved in March. The expansion in new business was the second in as many months, and the pace of growth picked up since February. Goods producers also recorded higher levels of order books, ending a 25-month sequence of contraction.

Both service providers and manufacturers had sufficient resources to work on existing projects, as signalled by further declines in outstanding business during March. The depletion in backlogs of work was more pronounced among goods producers.

At the same time, payroll numbers declined further, stretching the current period of job losses across Brazil's private sector to 25 months. Some panellists indicated that lower staffing levels reflected cost-cutting efforts, while others commented on the loss of existing contracts and company restructuring plans. Rates of job shedding softened in both the manufacturing and service segments, though remained substantial.

Overall, Brazilian service providers foresee growth in the year ahead, with business confidence at a five-month high. Almost 60% of the survey panel signalled positive sentiment towards the 12-month outlook for business activity, while less than 9% were pessimistic. Goods producers were also upbeat towards growth prospects.

As has been observed on a monthly basis throughout the survey history, services' input costs rose during March. The rate of inflation remained sharp, despite easing to the weakest since January

2015. In contract, cost inflation facing manufacturers picked up over the month.

Competitive pressures and attempts to boost demand encouraged services companies to lower their selling prices in March. Output charges decreased on average for the twelfth successive month. That said, the rate of discounting was only slight and little-changed from that recorded in February. By comparison, factory gate charges rose further, although inflation was at a three-month low.

Comment:

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

“PMI data for Brazil reinforce perceptions that the economic downturn bottomed-out and that the only way is up. The past two years have proven challenging for businesses, but there is finally a light at the end of the tunnel.

“Indices measuring output, new orders and employment are up in both the manufacturing and service sectors, though in some cases still remaining below the critical 50 level.

“Manufacturing firms fared relatively better than their services counterparts, with the former seeing increases in both new projects and production for the first time in over two years. Goods producers still shed jobs, but at the weakest rate since late-2015.

“Services activity fell again, though at a softer pace as companies benefited from a second consecutive monthly rise in new business. In part, this was supported by price discounts as companies sought to secure new work in the face of a competitive environment.”

-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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