

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

Services activity stabilises amid renewed rise in new work

Key findings:

- Business Activity Index at 50.0 no-change mark in January
- After stagnating in December, incoming new orders expand
- Business sentiment towards outlook for output improves

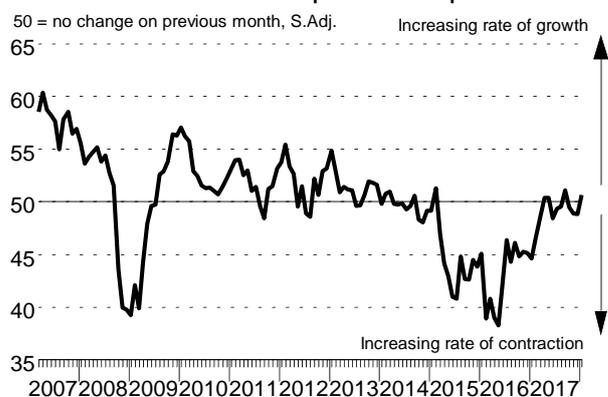
Data collected January 12-26

Business activity in Brazil's service sector stabilised in January, after having contracted throughout the final quarter of 2017. The relative improvement stemmed from a renewed increase in new work. Data indicated that capacity levels were more than sufficient to accommodate for the upturn in workloads, as outstanding business dropped markedly again. As a result, the ongoing trend of job losses was extended to nearly three years. Meanwhile, input cost inflation accelerated, outpacing its long-run average. This led firms to raise their selling prices, which had been left unchanged in December. Looking ahead, companies expected output to increase during the year, with optimism at a four-month high.

The headline seasonally adjusted **Brazil Services PMI Business Activity Index** posted 50.0 in January (December: 47.4), a reading indicative of no change in overall output. Where activity increased, panellists reported new offerings and greater client bases. Those that signalled a contraction mentioned fierce competition and a challenging economic scenario.

The stabilisation in services activity, coupled with a sustained expansion in manufacturing production, led to an upturn in private sector output. At 50.7 in January, from 48.8 in December, the seasonally adjusted **Brazil Composite PMI Output Index** posted in growth territory for the first time since September 2017. The latest figure was indicative of a marginal rate of increase.

IHS Markit Brazil Composite Output Index



New business received by services firms rose at the start of 2018, following stagnation in December. The upturn was attributed to additional offerings being brought into market as well as strengthening demand conditions. Factory orders increased for the eleventh month running, albeit at the weakest pace since last July.

Service providers continued to foresee greater activity levels in the coming 12 months, with sentiment boosted by restructuring plans, forecasts of a better economic environment and projects in the pipeline. Moreover, the degree of optimism reached a four-month high. A robust level of confidence was also noted in the manufacturing industry.

Services costs increased at a sharp and accelerated rate during January, with inflation moving above its long-run path. There were wide reports of higher prices paid for fuel, water and energy. Goods producers registered a slower rise in overall cost burdens than in December, although inflation in this segment surpassed that seen in services.

To curb outlays, services firms shed jobs in the opening month of the year. Employment fell for the thirty-fifth consecutive month, albeit at the slowest pace since October 2017. At the same time, a

negligible rise in headcounts was evident in the manufacturing industry.

Services data indicated that capacity levels were more than sufficient to deal with current workloads, as evidenced by a marked decline in unfinished business. Backlogs have fallen in each month since August 2015. At the composite level, the decline in work-in-hand was the most pronounced since September last year.

After having left their selling prices unchanged (on average) during December, Brazilian services companies increased them in January. The rate of inflation was the strongest since May 2017, but only slight nevertheless. This was due to some firms refraining from a price hike amid lower interest rates and competitive conditions. By comparison, factory gate charges rose to the greatest degree in nearly a year.

Comment:

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

“The latest PMI dataset indicated that the Brazilian economy rebounded at the start of the year from the contractions noted throughout the final quarter of 2017. The revival, although modest, reflected a stabilisation in service sector activity as well as sustained growth of manufacturing production.”

“New work rose in both segments during January, but only goods producers increased headcounts. Services employment fell further as firms tried to keep a lid on costs and continued to operate below full capacity.”

“Pricing strategies varied slightly on a sectoral basis, with services charges rising only marginally but inflation for factory gate charges climbing to an 11-month peak. At the composite level, the rate of input cost inflation has now surpassed that of selling prices for three-and-a-half years, suggesting ongoing pressures on businesses’ margins.”

-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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