

**EMBARGOED UNTIL: 00:01 (UTC) July 16<sup>th</sup> 2018**

# IHS Markit Brazil Business Outlook

## Confidence wanes in light of political and economic instability

### Key findings:

- Weakest degree of optimism since February 2016
- Sentiment fades at manufacturers and service providers
- Hiring intentions softest in two years
- Inflation expectations remain strong

Data collected June 12-26

Despite being the second-highest globally, sentiment in Brazil has weakened to a near two-and-a-half year low in June on the back of concerns surrounding political and economic instability. Firms revised lower their predictions for new orders, revenues and subsequently profits. At the same time, fewer companies (on balance) plan to create jobs and invest in capital than signalled at the start of 2018. Input cost inflation expectations overall is similar to the three-year peak registered in February and the highest worldwide.

At +44% in June, the Business Activity net balance continues to signal positive sentiment among Brazilian enterprises towards the 12-month outlook for output. Anecdotal evidence suggests that growth is forecast largely based on hopes of political and economic stability. Export opportunities, marketing efforts, product diversification and potential tax reductions are also among the factors underpinning confidence.

Nevertheless, the headline figure is down from +56% in February to its lowest mark since early-2016, reflecting concerns over lingering political issues and the upcoming presidential elections. Other reasons given for subdued confidence are competitive conditions, a lack of investments, customer defaults, US dollar strength, greater transportations costs and elevated unemployment. Sentiment is weaker among manufacturers and service providers alike, with the former remaining more upbeat than the latter.

### Brazil business activity expectations



Source: IHS Markit.

### Employment & Investment Plans

Reflecting downward revisions for new work and output, the net balance of Brazilian companies planning to take on additional staff in the coming 12 months has fallen from a four-year peak of +32% in February to +23% in June. The latest figure is nevertheless above both the emerging markets and global averages. The larger change in hiring intentions is evident among manufacturers, though they remain more upbeat than service providers.

Businesses have also downgraded their financing plans, with sentiment regarding future capex at a one-year low. In the manufacturing sector, weaker optimism towards capital spending is accompanied by subdued confidence towards research & development outlays.

### Inflation Expectations

Inflation expectations are slightly lower than in February as upward revisions in the manufacturing sector have been offset by downward corrections among service providers. Despite falling in June, the net balances for input costs and output charges across the private sector as a whole are the highest worldwide.

## Corporate Earnings

Amid expectations of weaker gains in new work and further increases in input costs, private sector companies in Brazil foresee softer profitability growth over the next 12 months. Sentiment towards profits is at its joint-lowest level in two years.

Manufacturing firms are more upbeat regarding predictions for business revenues and profits than their services counterparts, though sentiment has weakened in all cases.

### Comment:

Commenting on the Brazil Business Outlook survey data, **Pollyanna De Lima**, Principal Economist at IHS Markit, said:

*“Business outlook survey data for Brazil show that lingering political and economic issues weighed on confidence in June. Companies are at their least optimistic regarding output and new business since February 2016, a time when former president Dilma Rousseff faced impeachment proceedings.*

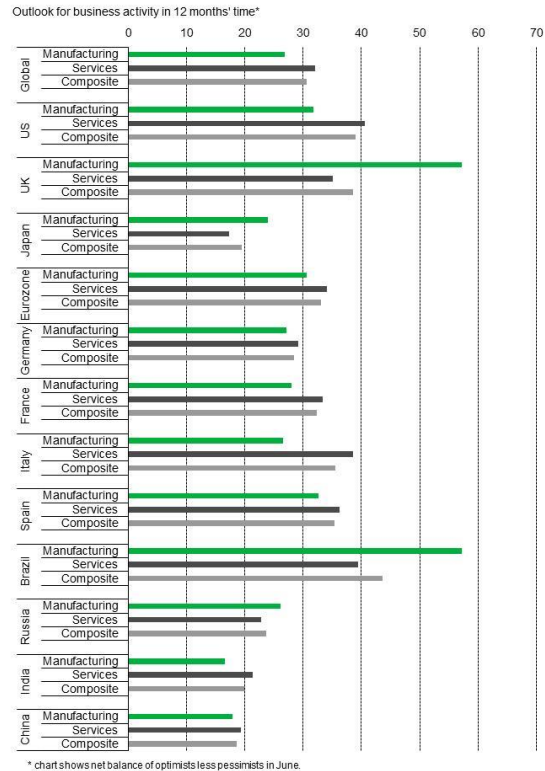
*“Whereas firms still predict growth in the coming 12 months, optimism largely reflects anticipations of a favourable result to the presidential election due in October this year. Companies hope that the newly-elected president will bring stability to the economy and improve Brazil’s image internationally, thereby attracting investments and supporting exports.*

*“Under the scenario of a satisfactory election outcome, companies intend to hire additional workers and boost capital expenditure. Nonetheless, outlay plans have been revised lower in June. This is partly due to forecasts of strong inflationary pressures in the year ahead. Expectations for both input costs and output charges in Brazil are the highest worldwide.”*

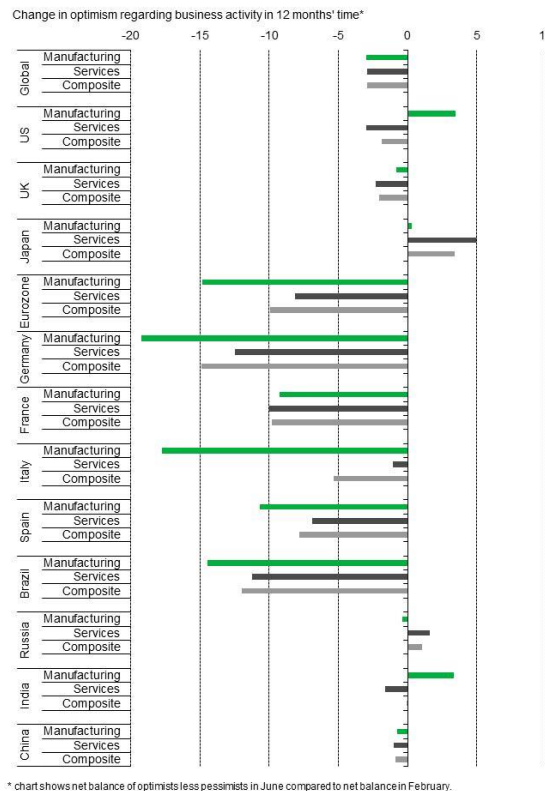
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in June



## How business activity expectations have changed since February



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**Notes to Editors:**

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 12 and 26.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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