

# News Release

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## S&P Global Brazil Business Outlook

### Business sentiment in Brazil dampened by policy uncertainty and inflation woes

#### Key findings

Outlook for business activity lowest since mid-2020

Firms foresee further increases in input prices, staff costs and output charges

Confidence surrounding profitability slips, but remains above global average

Business confidence in Brazil faded in February, with optimism for output, profitability and employment all weakening since October 2022. Inflation, public policy uncertainty, rising indebtedness, insolvency risks and excessive borrowing costs were cited as headwinds to the outlook. There were also upward revisions to inflation expectations, with a greater net balance of panellists forecasting higher input prices, staff costs and output charges. Sentiment levels surrounding capital expenditure (capex) and research & development (R&D) spending were little changed.

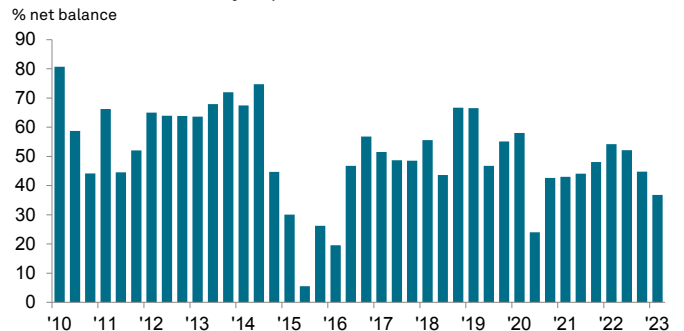
Brazil was one of three nations to see a downward revision in sentiment for output, alongside India and Japan, with upgrades noted in the other nine countries for which comparable data are available. Nevertheless, optimism was among the best globally, below only Ireland and the UK.

Companies were able to identify several growth opportunities, including investment in biofuel and clean energy, product diversification, exports, advertising and tourism. Some firms were also hopeful for access to cheaper and easier credit as well as favourable tax reforms.

At +37% in February, the S&P Global Brazil business activity net balance was down from +45% in October and highlighted the lowest level of positive sentiment since June 2020. By comparison, the global and emerging market averages were at +32% and +33% respectively.

Services was the main drag on overall sentiment, with optimism among manufacturers unchanged. The corresponding net balances were at +34% and +46%.

Brazil Business Activity expectations



Source: S&P Global.  
Data were collected 08-23 February 2023.

#### Comment

Commenting on the Brazil Business Outlook survey data, Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said:

*"Against the broad global tide of improving sentiment for growth prospects, Brazil recorded declines in confidence levels for output, employment and profitability. Companies seemed somewhat divided over similar themes; some expect inflation to fade and interest rates to fall, while others forecast the opposite. The degree of uncertainty over the path for public policy also remained elevated, according to anecdotal evidence.*

*"Several companies looked beyond current issues and sought to pinpoint areas that bode well for the outlook. They commonly anticipate stronger international demand for goods and services, partly due to a better outlook for the global economy and forecasts of higher inbound tourism. Others indicated that a reduction in unemployment would boost domestic demand.*

*"Survey participants showed intentions to invest in the future capability of their businesses via lifting outlays on capex, R&D and job creation. Hiring plans were at their lowest since mid-2020, however, amid inflation concerns. On this front, there were upward revisions to expectations surrounding input prices, non-staff costs and output charges, suggesting that the convergence of Brazil's inflation towards the 3.25% central target appears distant."*

### Inflation looks set to be more acute in manufacturing than in services

Manufacturers predicted that higher interest rates, material shortages, real depreciation, tax changes and the war in Ukraine would drive up non-staff input costs in the coming year. Inflation expectations intensified, in line with the trend for emerging markets but against the global average. The net balance of Brazilian service providers anticipating an increase in non-staff costs fell to +32%, the lowest figure since June 2021, curbing aggregate expectations (up from +36% to +37%).

Staff cost expectations were revised higher among both manufacturers (+58%) and service providers (+34%), pushing up the average for the combined private sector (+40% versus +37% last October).

A higher net balance of manufacturers intend to hike their fees in the year ahead (+52%) than recorded in October (+46%) as cost increases continue to be transferred through to clients. A relatively mild uptick in charge inflation expectations was noted in the service economy (+32% from +31%).

### Capex and R&D plans broadly unchanged since late-2022

Brazilian companies aim to acquire or upgrade fixed assets in the coming 12 months, with sentiment at its joint-highest level in a year and above both the global and emerging market averages. Granular data showed that services firms are more likely to lift capex than their manufacturing counterparts, a reversal of the trend seen in the prior survey period.

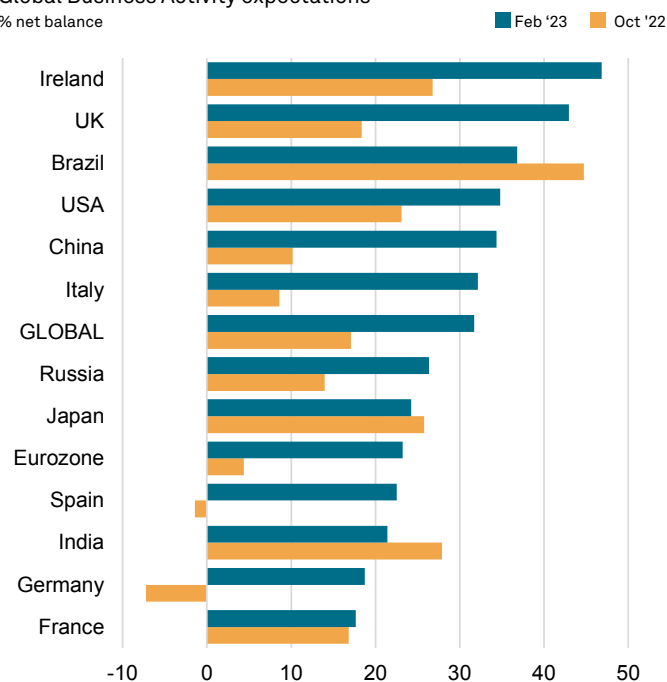
R&D spending also looks set to expand in the year ahead, with a net balance of +12% of private sector firms predicting growth (versus +11% last October). Sentiment was above the global average, but was below the respective reading for emerging markets.

Besides targeting higher investment, Brazilian firms intend to expand their capacities by hiring extra workers. The employment net balance fell, however, from +31% to +19%. Hiring intentions were at their lowest since June 2020, with downgrades in sentiment evident at goods producers and service providers.

### Outlook for profitability stymied by elevated cost pressures

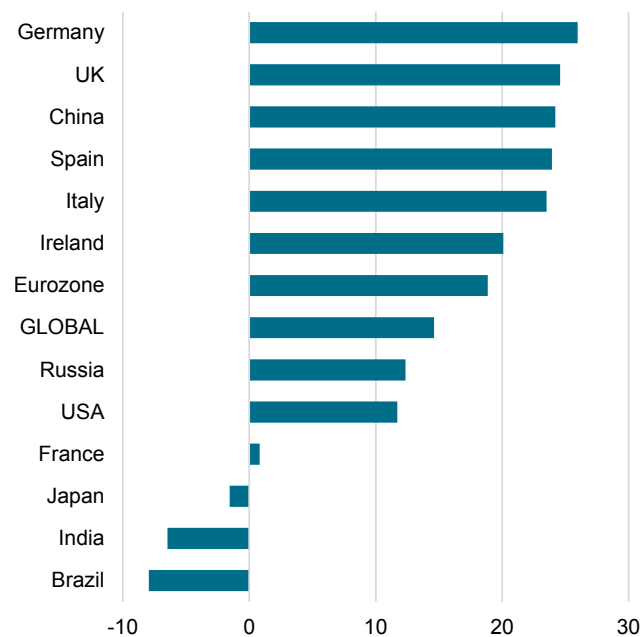
Although prices charged for goods and services in Brazil look set to increase in the year ahead as companies pass on cost rises to their clients, firms' views about their earnings weakened in February. The largest downward revision was seen in the service sector (net balance down from +37% to +25%), with a relatively mild change registered in manufacturing (down from +12% to +8%).

Global Business Activity expectations  
% net balance



Source: S&P Global.

Global Business Activity expectations  
Change in % net balance, Feb '23 vs. Oct '22



Source: S&P Global.

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

## Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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, 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\*. 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 8,000 firms.

*\* The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

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