

News Release

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S&P Global Brazil Services PMI[®]

Services activity falls for first time since May 2021, albeit fractionally

Key findings

Output and new business contract in February

Price pressures intensify

Optimism improves from January's one-and-a-half-year low

Brazil's service economy slipped into contraction in February, with client uncertainty restricting new work intakes. Output decreased for the first time in 21 months, albeit only fractionally. Besides showing another round of job shedding, the latest results pointed to a reacceleration in rates of inflation for both input costs and selling charges. Encouragingly, business confidence improved since January.

At 49.8 in February, down from 50.7 in January, the seasonally adjusted S&P Global Brazil Services Business Activity Index was in sub-50.0 territory for the first time since May 2021. The headline figure pointed to a renewed contraction in output, but one that was fractional overall. Subdued demand conditions was cited as the main factor behind the latest reduction, although a few firms also displayed concerns towards the country's economic and political scenarios.

Future uncertainty among clients and generally subdued underlying demand restricted new work intakes at Brazilian services companies. Sales fell for the first time in 22 months, albeit only slightly.

More than half (56%) of all survey participants forecast an increase in business activity over the course of the coming 12 months, while 8% anticipate a reduction. Where growth was predicted, firms were confident of a rebound in sales and favourable economic policies. Advertising and investment also boosted optimism. The overall level of positive sentiment was at a four-month high.

Input prices increased further in February, with services firms reporting higher food, fuel, labour and utility costs. Several companies also linked inflationary pressures to currency depreciation and the reinstatement of the ICMS sales tax. The overall increase in expenses was the most pronounced in three months.

Services companies continued to transfer cost increases through to customers, stretching the current sequence of charge inflation to 28 months. Output prices rose at a sharp

S&P Global Brazil Services Business Activity Index
sa, >50 = growth since previous month



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

Comment

Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said:

"After seeing growth rates cool in each month since the presidential elections, Brazil's service sector slipped into contraction in February. Survey participants remarked on an increased reluctance among clients to request their services due to future uncertainty. Besides reporting subdued underlying demand, firms cited low levels of footfall."

"The reductions in services demand and business activity ended sequences of growth dating back to May and June 2021 respectively, but were only marginal. Nonetheless, this meant that firms cut payroll numbers yet again in February."

"Companies again stated that their overall expenses increased on a monthly basis. According to them, food, fuel, staff wages and utility bills were the key sources of inflationary pressures. Real depreciation and the reinstatement of the sales tax (ICMS) also pushed up cost burdens. Despite weak demand for services, firms transferred a sizeable proportion of their expenses through to clients. Input costs and output charges rose at the strongest rates in three and seven months respectively."

PMI[®]

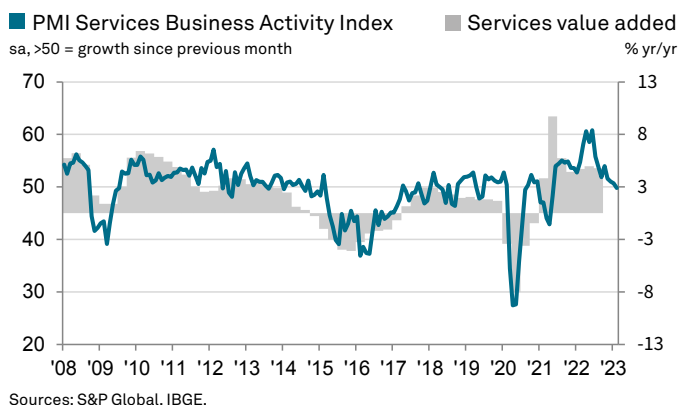
by S&P Global

rate that was the quickest since July 2022 and above its long-run average.

Granular data indicated that cost inflation was most pronounced in the Consumer Services sub-sector, while the sharpest increase in output charges was seen in Finance & Insurance.

February data continued to point to spare capacity among Brazilian services companies. Outstanding business decreased for the ninth successive month and markedly, though at the slowest pace since mid-2022.

Restructuring initiatives and falling sales led firms to cut payroll numbers halfway through the first quarter. The latest contraction in employment was the third in consecutive months, but only slight overall.



S&P Global Brazil Composite PMI®

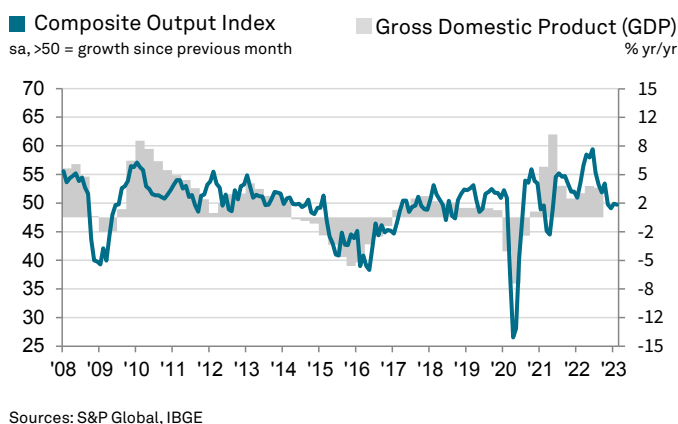
Private sector output falls further as services slip into contraction

Brazil's private sector economy remained in contraction territory during February, as service providers joined manufacturers in downturn. That said, at 49.7 (January: 49.9), the S&P Global Brazil Composite PMI® Output Index* was indicative of a fractional rate of reduction.

There were back-to-back declines in new orders placed with private sector companies in February. Although slight, the pace of contraction was the fastest in 22 months. Rates of reduction were broadly similar among manufacturing companies and their services counterparts.

Employment fell further at the composite level, albeit at the slowest pace in the current three-month sequence of reduction. The decline in payroll numbers was broad-based across the manufacturing and service economies.

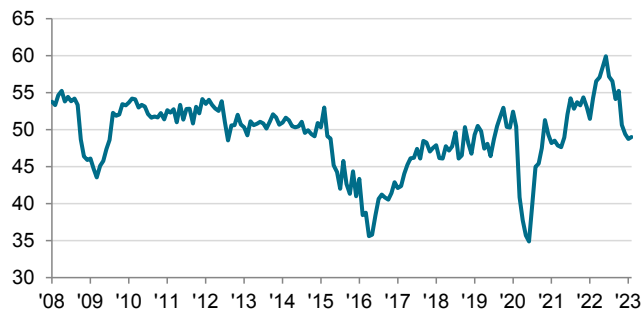
The aggregate rate of input cost inflation climbed to a seven-month high in February, with quicker increases evident in both the manufacturing and service sectors. Concurrently prices charged for goods and services rose at the fastest pace since August 2022.



*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Brazil Services PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global.

Brazil Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global Brazil Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in March 2007.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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