

News Release

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S&P Global Brazil Business Outlook

Inflation expectations broadly stable, interest rate cuts boost investment plans

Key findings

Inflation in Brazil poised to level off in the year ahead

Companies upgrade allocated funds for capital expenditure and R&D investment

Recruitment intentions improve in October

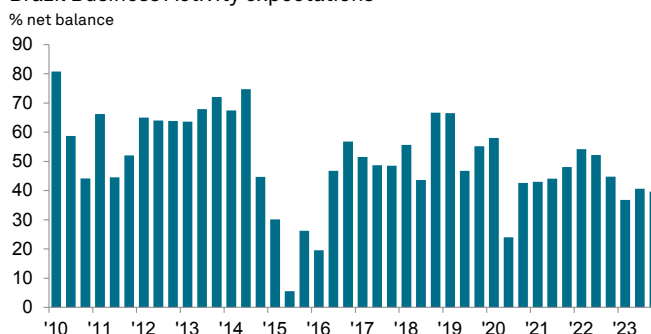
Falling interest rates and forecasts of a stable inflation environment boosted optimism among Brazilian companies regarding investment initiatives for the year ahead. Although firms noted that demand resilience should support output growth, concerns surrounding competitive conditions dampened sentiment for profitability. Nevertheless, hiring plans, capital expenditure and allocated budgets for research and development (R&D) were revised higher.

October data from the S&P Global Brazil Business Outlook survey signalled a fractional weakening of output prospects among private sector companies. A net balance of +40% of panellists foresee growth, compared with +41% in June. With only Russia posting a higher reading than Brazil, the level of positive sentiment was the second-strongest of the 12 nations with comparable data.

Brazilian goods producers were more upbeat than service providers, as the net balance for the former (+49%) was at its joint-highest since June 2022. Manufacturers listed several opportunities to the outlook, including the tax reform, new product releases, investment plans, efficiency gains, price stability and accommodative monetary policy.

In the service sector, the proportion of optimists outstripped pessimists by +37% in October (June: +38%). Firms in this category forecast a pick-up in demand and investment due to interest rate cuts. The provision of innovative products and services as well as outreach to new markets also supported business confidence. Competitive conditions were identified as the main threat to the outlook.

Brazil Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-26 October 2023.

Comment

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

"The latest results on business confidence revealed a mild recovery in investment plans among companies in Brazil, spurred by ongoing interest rate reductions. Some firms intend to open new offices, while others are aiming to commit resources to product diversification, new technologies and artificial intelligence."

"Companies in Brazil also showed greater willingness to pursue recruitment drives in the year ahead, with hiring intentions stronger at manufacturing firms and their services counterparts. Predictions of a recovery in demand and output fuelled job creation aspirations."

"The trajectory for inflation expectations seems to point towards overall stability in 2024. Should this materialise, consumers would be able to plan spending with greater certainty, businesses could commit to long-term investment decisions and the central bank could continue bringing down the benchmark policy rate to more business-friendly levels."

October data show little-change to price outlook

A net balance of +39% of private sector companies in Brazil foresee higher non-staff costs over the course of the coming 12 months. This was down marginally from +41% in June, but remained the highest of the emerging economies with comparable data. Mild downward revisions to expectations were noted at Brazilian manufacturing firms and their services counterparts.

The outlook for aggregate staff costs was equal to June, with the net balance unchanged at +36% in October. The reading for Brazil was broadly aligned with the global average (+37%), albeit considerably higher than the figure for emerging markets (+16%).

Prices charged for Brazilian goods and services look set to increase in the year ahead. The net balance of +33% was little-changed from +38% in June but nevertheless sat at its lowest since February 2021. Manufacturers were much more confident about pricing power (+41%) than service providers (+30%).

Investment prospects look brighter

After slipping to a two-year low of +8% in June, the net balance of companies planning to allocate financial resources towards R&D rose to +11% at the start of the fourth quarter. Globally, private sector firms in Brazil were the second-most upbeat on this front, behind Russia. The uplift in confidence was centred on the service sector where the net balance nearly doubled from +7% to +13%.

Capex prospects improved in October, with the net balance of firms forecasting growth up from +14% to +16%. This compared favourably with the emerging market and global readings of +9% and +8%.

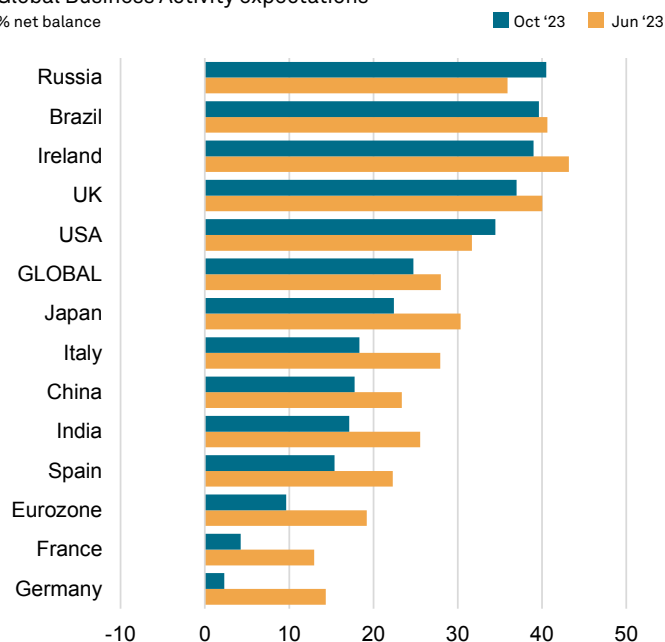
With regards to capacity investment, the net balance of Brazilian private sector companies intending to hire extra staff rose from +16% in June to +19%. Talent acquisition plans strengthened at manufacturers (+15%) and service providers (+20%).

Confidence surrounding profitability fades

A healthy net balance of companies in Brazil reported expected growth of their businesses' profitability in the year ahead. At +20% in October, the composite figure matched that seen for Ireland and was below only Russia. That said, in the context of historical data for Brazil, sentiment on this front was at its lowest level since June 2020.

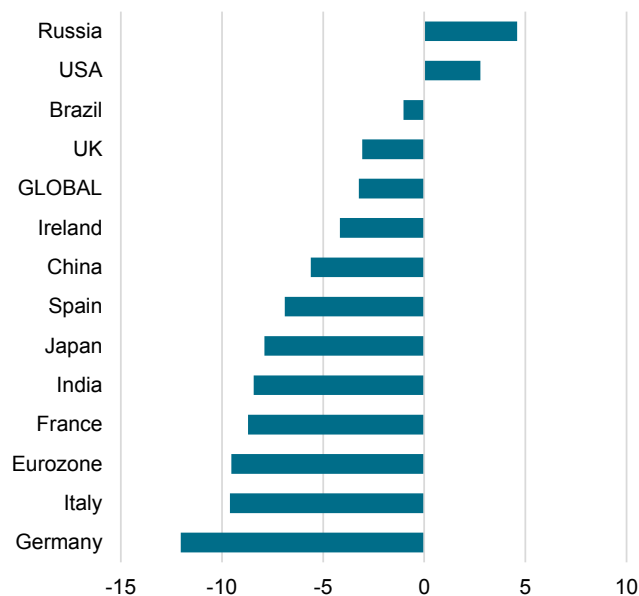
Granular data showed confidence waning at services firms, with the net balance falling from +31% in June to +23% in October. The respective reading for manufacturing was stable at +10%.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

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



Source: S&P Global PMI.

Full data available on request from economics@spglobal.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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