

News Release

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S&P Global Brazil Services PMI[®]

Service sector growth loses momentum, inflation ticks higher

Key findings

New business and activity rise at slowest rates in 20 months

Stronger increases in input costs and output charges

Confidence at lowest level in one-and-a-half years

Although the service economy stayed in expansion territory at the start of 2023, growth lost momentum since December. The slight increases in new business and output seen in January were the weakest registered in 20 months, and there were back-to-back contractions in payroll numbers. At the same time, economic and public policy uncertainty dragged down business confidence to its lowest level in a year-and-a-half.

Amid reports of currency weakness, higher wage costs and the reinstatement of the sales tax (VAT, known in Brazil as ICMS), input cost inflation quickened since December. There was also a sharper increase in prices charged for the provision of services.

Posting 50.7 in January, the seasonally adjusted S&P Global Brazil Services Business Activity Index signalled growth for the twentieth month running. That said, falling from 51.0 in December, the headline figure indicated the weakest rate of expansion over this period. Where growth was reported, panellists mentioned higher sales and new client wins. Companies that saw a fall mentioned weak demand for their services.

New work intakes continued to grow in January, but the pace of expansion was slight and the slowest since May 2021. Some firms signalled an increase in new business, while others saw demand for their services fade.

Services companies were nevertheless confident that a rebound in new business, investment, contained inflation and lower borrowing costs could boost output over the course of the coming 12 months. Still, sentiment sank to its lowest level in a year-and-a-half amid political- and economic-related concerns.

For the second time in eight months, input price inflation quickened in January. When listing the key sources of cost pressures, survey participants mentioned real weakness, higher wage bills and the reinstatement of the ICMS sales

S&P Global Brazil Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-26 January 2023.

Comment

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

"Brazil's service sector managed to keep its head above water at the start of 2023, sustaining growth of new business and output when contractions were recorded in the manufacturing industry. That said, rates of expansion were mild at best and the slowest for 20 months with an imminent rebound in the near-term seeming highly unlikely.

"Several factors continued to dampen domestic demand for services, including higher borrowing costs, inflation, fiscal uncertainty and political issues. Companies were concerned that such problems could negatively impact growth prospects, but there was a general feeling that business activity would increase over the course of the coming 12 months should there be interest rate cuts, contained inflation and a better economic landscape.

"Whereas firms' assessments for the outlook are based on a 12-month horizon, for now the likelihood of monetary policy being eased and inflation receding are very low. The PMI price indices showed stronger increases in input costs and selling charges, partly due to the weaker real and the reinstatement of the ICMS."

PMI[®]

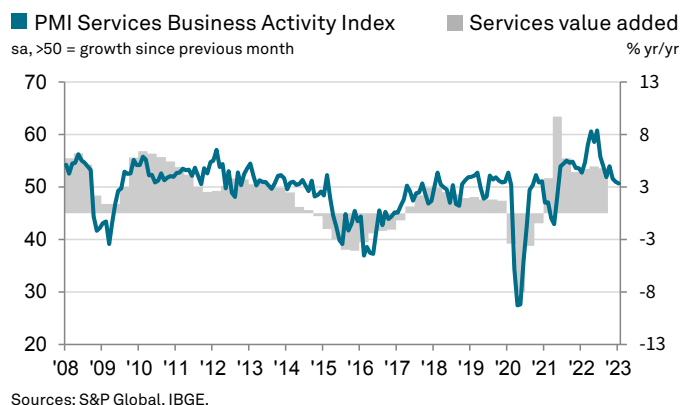
by S&P Global

tax. The overall rate of inflation outpaced its long-run average, but was below most of those seen in the past two years.

Prices charged for the provision of services in Brazil rose further in January, taking the current sequence of inflation to 27 months. The rate of increase accelerated to the highest since last August and outpaced its long-run average.

Weak demand conditions, restructuring efforts and market uncertainty resulted in a second successive monthly fall in payroll numbers. The rate of job shedding was only slight, though quicker than in December.

Another factor causing the latest fall in employment was a general lack of pressure on the capacity of services firms. Outstanding business decreased for the eighth consecutive month and at a sharp pace that was the fastest since October.



S&P Global Brazil Composite PMI®

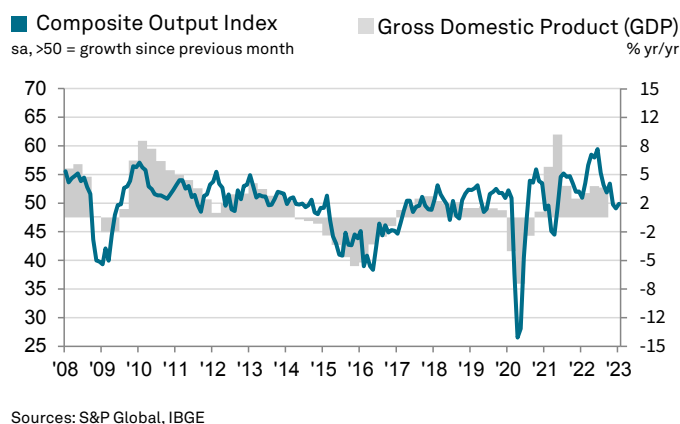
Private sector output broadly stable in January

Brazilian private sector output broadly stabilised at the start of 2023, amid sustained growth of services activity and a considerably softer decline in manufacturing production. The S&P Global Brazil Composite PMI® Output Index* rose from 49.1 in December to 49.9, only fractionally below the no-change level of 50.0.

That said, there was renewed contraction in new orders received by private sector firms. A softer fall in factory orders compared with a slower increase in new business receipts at service providers.

January data highlighted a broad-based decline in employment across the manufacturing and service economies. At the composite level, jobs decreased for the second month running and at an equal rate to December.

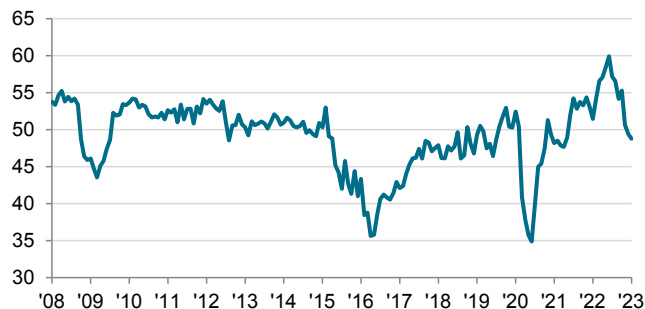
There were stronger increases in both input costs and output prices at services firms and their manufacturing counterparts. Across the private sector, rates of cost and charge inflation climbed to two- and five-month highs respectively.



*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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