

News Release

Embargoed until 2301 UTC 16 July 2023

S&P Global Brazil Business Outlook

Expectations of interest rate cuts and demand resilience boost business optimism in Brazil

Key findings

Output prospects brighten at manufacturers and service providers

Investment plans downgraded in June, with capex intentions at one-year low

Non-staff cost inflation set to recede at goods producers and intensify at services firms

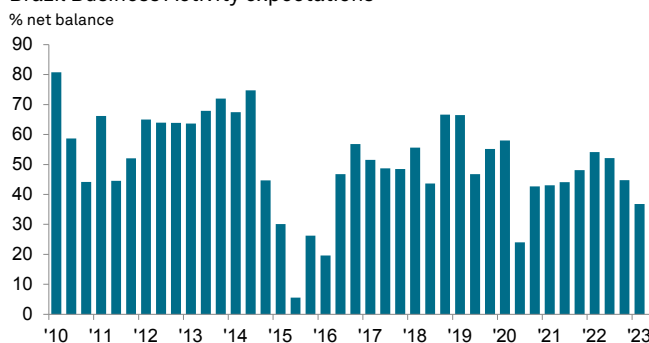
Brazilian companies became more optimistic towards the year-ahead outlook for output during June, with predictions of lower interest rates and better demand conditions promoting positive assessments. Non-staff cost inflation projections ticked higher, largely reflecting an upward revision in the service economy. Indeed, the net balance of manufacturers that forecast higher input prices slipped to a six-year low. Cost considerations, meanwhile, led to downward revisions to hiring intentions, investment plans and staff cost expectations in the private sector.

Out of the 12 nations for which comparable data are available, Brazil came second in the rankings for output prospects, behind only Ireland. The S&P Global Brazil business activity net balance rose from February's two-and-a-half-year low of +37% to +41% in June. Readings for manufacturing and services increased to +49% and +38% (from +46% and +34%) respectively.

Driving the improvement in output growth prospects were projections that a softening of official measures of inflation would underpin reductions in interest rates, therefore supporting consumption and investment. Firms also expect the tax reform, growth in the use of artificial intelligence and the emergence of new market niches to support the economy.

Manufacturers reported plans to launch new products, often due to changes in consumer preferences, with integration initiatives such as Mercosul anticipated to support exports. Service providers noted that improved footfall, greater inbound tourism, the scaling back of home working and government incentives for specific industries bode well for the outlook.

Brazil Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

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

"Brazilian companies became more optimistic towards the prospects for business activity as softer inflation looks set to support interest rate cuts, aiding consumer spending and private sector investment. The positive outlook for output was insufficient to drive capex and R&D budgets higher, however, as firms remained concerned about elevated financing charges amid expectations that any lowering of interest rates will be gradual. Although survey participants aspire to boost their capacities to meet rising demand needs, financial hurdles and cost assessments led to the scaling back of hiring plans."

"June's results pointed to contrasting paths for inflation expectations between manufacturers and service providers, reflecting the distinct nature of these sectors. More normal supply-chain conditions, subdued global demand for inputs and lower commodity prices led to a substantial downward revision to non-staff cost inflation assessments at factories. Companies also revised lower their year-ahead predictions for staff costs and factory gate charges."

"Fuelled by concerns surrounding food prices, borrowing costs and exchange rate volatility, non-staff cost and output price inflation estimates were revised higher in the service economy."

Manufacturers signal better price outlook for year ahead

The net balance of Brazilian goods producers expecting higher non-staff costs in the next 12 months fell from +55% in February to +45% in June, the lowest figure in six years. There were also downward revisions with regards to staff costs and factory gate charges. At +40%, the latter slipped to a six-year low.

Conversely, inflation expectations in the service economy were either higher or unchanged since the previous survey period. The proportion of companies forecasting an increase in non-staff costs outstripped that predicting a fall by +40% (+32% in February). Food prices, greater borrowing costs and exchange rate movements were the key concerns cited by panellists. These worries meant that a greater net balance of firms intend to hike their charges.

Price forecasts for non-staff costs and output charges increased at the aggregate level, to one-year highs of +41% and +38%. Inflation estimates for staff costs slipped to +36%, the lowest since February 2021.

High borrowing costs set to dampen Capex and R&D investment

Private sector companies in Brazil downgraded their investment plans for the year ahead. The net balance of firms intending to lift capex fell from +18% in February to a one-year low of +14% in June. The drop was centered on the service economy, with sentiment at goods producers recovering from February's two-and-a-half-year low. Similarly, a downward revision to plans for R&D spending at service providers more than offset an improvement at manufacturers, leading to a decline in the composite net balance (from +12% in February to +8% in June).

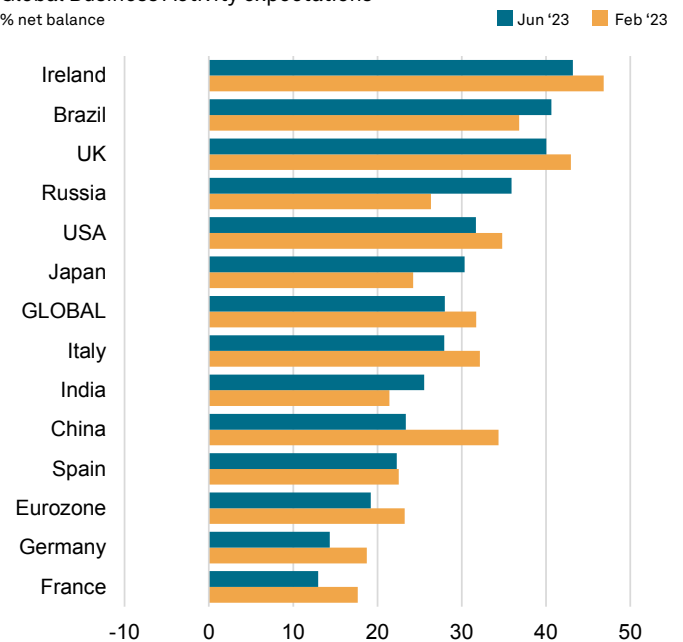
Meanwhile, cost considerations curbed hiring plans, with a lower net balance of private sector companies planning to hire extra staff than at the start of 2023. The employment net balance slipped to a three-year low of +16%, with declines seen in both the manufacturing (+11%) and service (+18%) sectors.

Pricing power projected to improve and support profitability growth

Companies operating in Brazil's private sector continued to signal intentions of sharing additional cost burdens with their clients via lifting selling prices to protect their margins. A net balance of +26% of panellists foresee higher profits over the course of the coming 12 months compared to present levels.

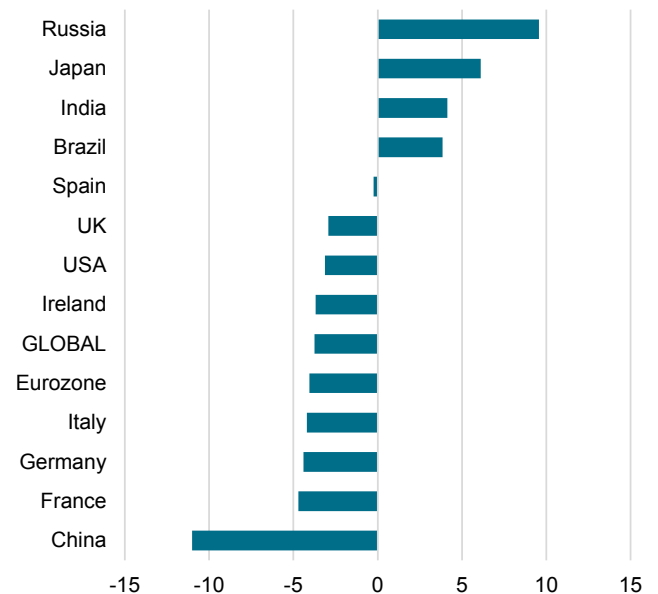
The improvement in the profit outlook was widespread across the manufacturing and service sectors, with respective readings rising to +10% and +31%.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

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



Source: S&P Global PMI.

Full data available on request from 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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