

# News Release

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## S&P Global Brazil Business Outlook

### Profits sentiment weakens amid soaring inflation expectations

#### Key findings

Confidence surrounding profitability slips to one-year low

Input cost inflation expectations joint-highest in over 12 years

Optimism regarding output little-changed from February

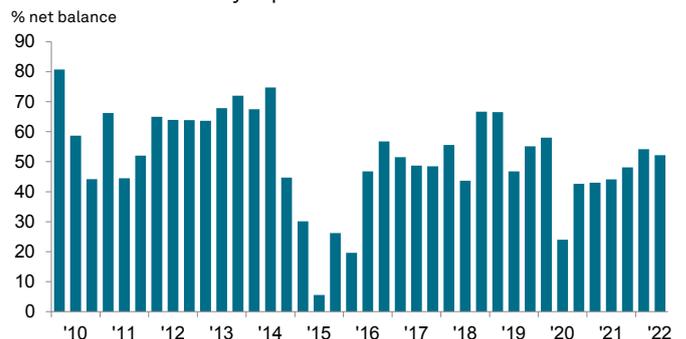
Brazilian companies remained upbeat towards growth prospects in June, despite anticipated headwinds, with sentiment surrounding business activity broadly similar to that recorded in February and the highest globally. That said, firms raised their inflation forecasts for both non-staff costs and output charges amid the war in Ukraine, energy price volatility, US dollar strength, rising interest rates, lingering problems in supply chains and global shortages of inputs. Concerns around operating expenses led businesses to pare back investment plans and downgrade profits projections.

The S&P Global Brazil Business Outlook survey indicated that optimism regarding output fell only marginally from February, with the net balance of companies predicting growth slipping from +54% to +52% in June. This was by far the highest figure seen out of the 12 nations for which comparable data are available and contrasted with marked downgrades in forecasts elsewhere, with the exception of Japan.

Underpinning upbeat projections regarding the year ahead were forecasts that the economic recovery would be sustained and demand conditions would strengthen further. Several firms intend to launch new products and services and foresee an improvement in international orders. In some instances, expectations were pinned on hopes of political, currency and price stability as well as diminished geopolitical tensions.

Manufacturers were more optimistic regarding output than service providers, with the respective net balances down marginally from +66% and +51% to +62% and +49%.

Brazil Business Activity expectations



Source: S&P Global.  
Data were collected 13-27 June 2022.

#### Comment

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

*"Business sentiment in Brazil held up well in June as firms expect the economic recovery to continue and demand to strengthen further. This is in stark contrast to substantial downward revisions in output prospects across the other nations monitored bar Japan, which was the only country to see an improvement."*

*"Yet, Brazilian firms acknowledged many threats to the outlook, with inflation taking centre stage. Companies anticipate that the war in Ukraine, energy price volatility, input shortages and rising interest rates will continue to add to price pressures. Non-staff cost inflation expectations climbed to its joint-highest mark in over 12 years, leading companies to review their pricing policies for the year ahead as additional cost burdens continue to be transferred to customers."*

*"Concerns surrounding price pressures and their impact on spending also led to forecast downgrades elsewhere, namely profitability and investments. A lower net balance of panellists intend to lift capital expenditure in the year ahead, a trend that was also recorded for research and development. The profit outlook remained positive, but here firms were at their least upbeat in a year."*

## Unrelenting inflation set to persist in year ahead

A higher net balance of private sector companies foresee greater input costs in the year ahead than was the case in February. At +53% in June, the reading for non-staff costs was at its joint-highest mark since February 2010 and outpaced the global average (+38%). Price pressures look set to be more acute in the manufacturing industry, where the respective figure climbed to a series record of +74%. By comparison, the number for services was unchanged at +47%.

With regards to staff costs, the magnitude and direction of sentiment levels varied noticeably at the sector level. The manufacturing net balance rose to a one-year high of +70%, while that for services fell to a one-year low of +34%.

Panel members indicated that rising cost burdens will be at least partially transferred to customers. A net balance of +43% of private sector firms plan to increase their charges, compared with +40% in February. Factory gate charges in particular look set to escalate, with the net balance of +70% the highest in over 11 years and above those seen for the other 16 countries monitored. The respective figure for the Brazilian service sector was little-changed at +35%.

## Jobs growth forecasts and investment plans revised down halfway through 2022

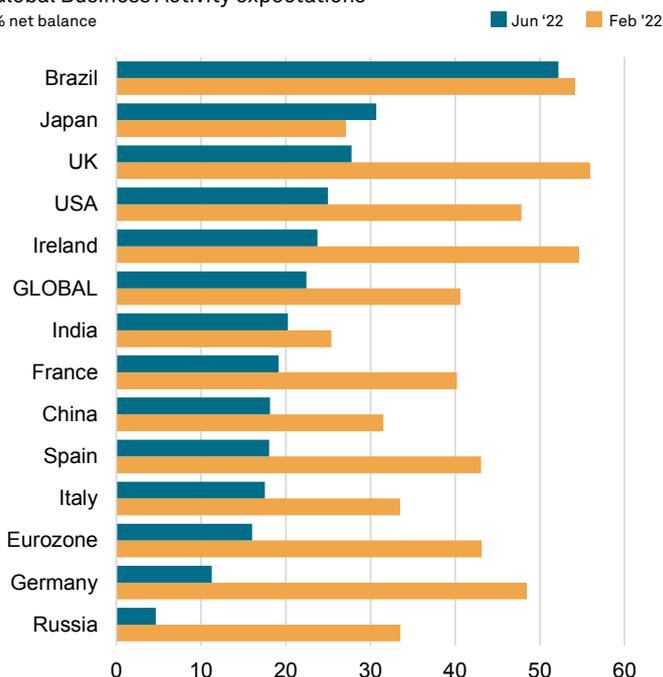
Expectations of demand strength and a sustained economic recovery underpinned capacity expansion goals, but concerns over operating expenses dampened hiring intentions in June. The proportion of private sector companies planning to add to their payrolls outstripped that predicting a reduction by +24%. This was the lowest net balance in a year but the joint-highest figure worldwide (equal to Ireland). Levels of confidence were identical at goods producers and service providers.

Business sentiment towards capex and research & development at the aggregate level likewise weakened in June. The respective net balances fell from +20% and +12% to +13% and +9%.

## Profitability prospects stifled by inflationary pressures

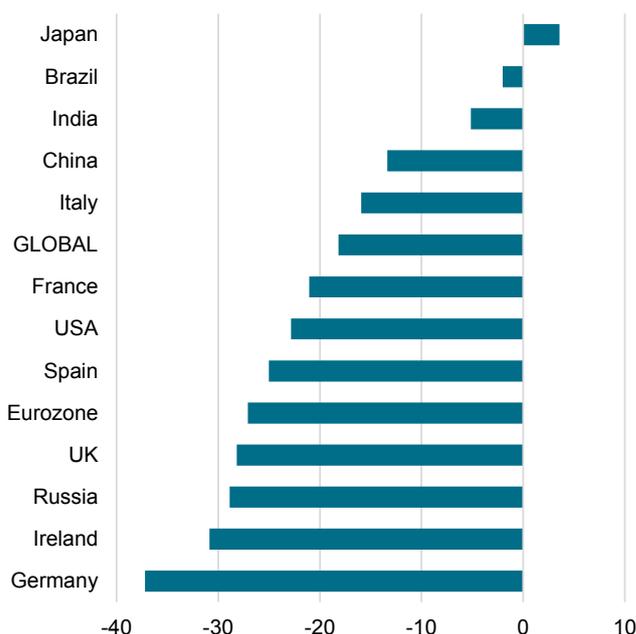
Companies operating in the Brazilian private sector reported positive expectations in the 12-month outlook for profitability, but inflation concerns curbed optimism. The net balance of firms forecasting earnings growth fell from +31% in February to +23% in June, owing to a downward revision among service providers. Yet, sentiment at services firms (+27%) was stronger than at manufacturers (+11%).

Global Business Activity expectations  
% net balance



Source: S&P Global.

Global Business Activity expectations  
Change in % net balance, Jun '22 vs. Feb '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 in the countries mentioned above. 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.

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