The service sector starts to topple



Cristina Alves

THE SERVICE SECTOR—the engine of the Brazilian economy, accounting for almost 70% of GDP—is already feeling the effects of household budget tightening and government spending cuts. After the steep downturn for industry after the financial crisis, "The cyclical downturn of the service sector has started," says Vinícius Botelho, IBRE researcher. The result is already being seen in lower sales and job cuts.

Job losses

Silvia Matos, technical coordinator of the IBRE Macro Bulletin, believes that though losses of formal service jobs are likely to be compensated in part by informal jobs, nevertheless job insecurity will increase. Concern is therefore justified because services and commerce account for two-thirds of jobs in Brazil, employing more than 60 million people.

The job cuts have already begun. The General Registry of Employment and Unemployment for May shows a loss of 32,602 formal services jobs. The services job cuts are second only to those of industry (60,989). All in all, Brazil lost 115,599 formal jobs in May.

Not unrelated, there has also been a significant decrease in services sales. In the year through April, according to the latest Monthly Survey of Services by government statistics agency IBGE, income for the services sector grew by only 2.6%, down from 8% in the same period in 2014.

Inflation

Services inflation, however, is growing: through April the 12-month rate was 8.3%. General services such as rentals, hotels, recreation, telecommunications, health plans, doctors and dentists, insurance, banking,

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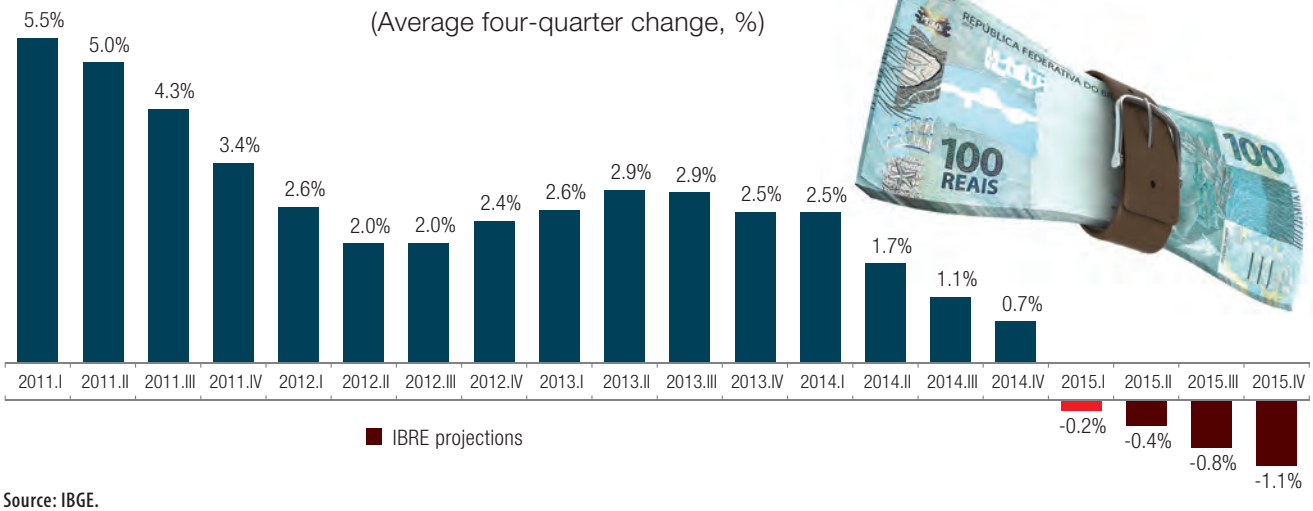
education and transportation (excluding air tickets) accounted for 19.27% of the official consumer price index, followed by eating out (8.75%), and labor-intensive services, such as accountancy and household repairs (7.2%). Together, services account for over one-third of Brazil's inflation. "If domestic demand was not constrained, services inflation would be in the double digits," Matos says. Indeed, to prevent further decline in demand, so far businesses have not passed their cost increases through to consumers.

Adjustments in households spending are helping to contain inflation. For instance, families are eating out less. Eating out-related services inflation was 5.99% in the first half of this year, slightly higher than 5.6% in the same period of 2014. In labor-intensive services inflation was 4.63% in the first half of the year, down from 5.11% in the same period last year. "Many service providers, from doctors to handymen, have not raised their prices in order not to lose customers," Matos says. Finally, general services inflation was 4.92% in the first half of this year, up from 4.88% in the first half of 2014. Inflation in this category has been kept down by declines in some prices, such as rent, in recent months.

IBRE forecasts that this year services inflation will be about 8% this year and headline inflation between 8.8% and 9%; next year the forecast is for about 7% and headline inflation between 5% and 5.5%.

Services GDP in free fall

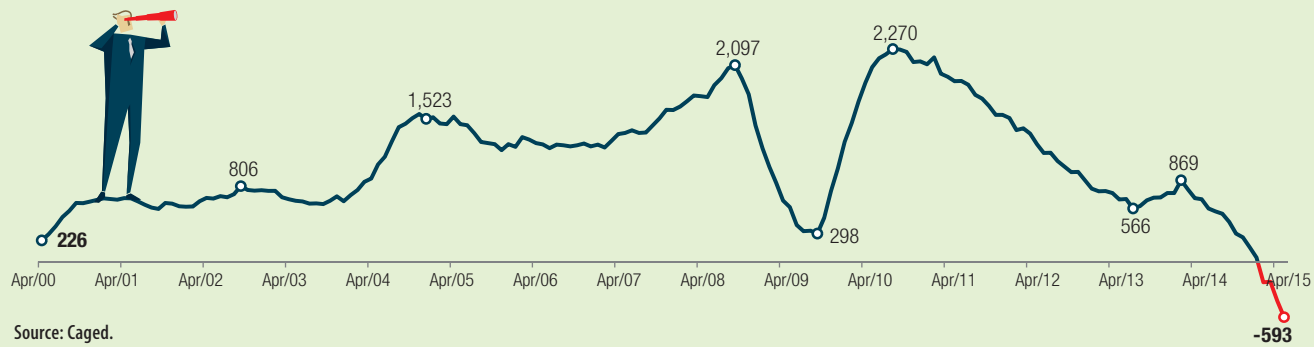
(Average four-quarter change, %)



Source: IBGE.

Employment in services is declining

(Hirings less firing, in thousands of employees, 12-month average)



Source: Caged.

"Government expansionary policies after 2010 have been reversed. We also have rising interest rates, administered price adjustments, and fiscal tightening," says Vinicius Botelho, IBRE researcher. The Brazilian economy is thus likely to continue contracting, with a negative effect on services.

Cutting spending

The IBGE survey shows services provided to households went up by 1.2% year-on-year in April. This is significantly lower than what was recorded for March (2.5%) and February (6.8%). According to IBGE, reduction of Brazilians' purchasing power—real income decreased 3.8% in the period—has had a decisive effect on the reduction in services output.

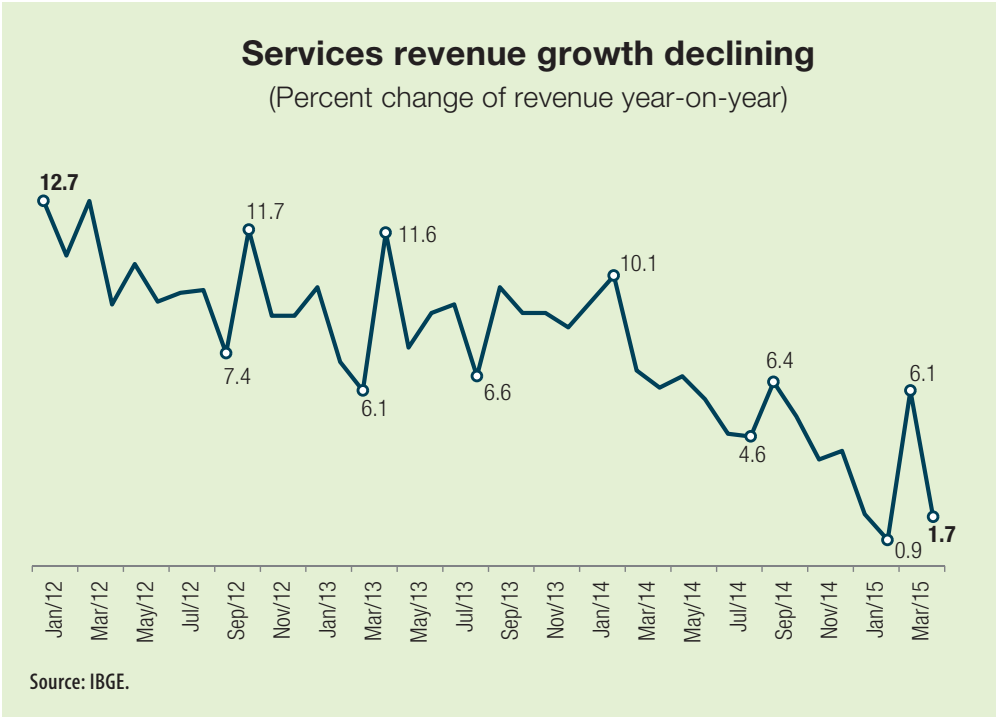
Economist Fernando Ribeiro, Institute of Applied Economic Research, see the service sector suffering from the effects of the fiscal adjustment promoted by the government, inflationary pressure limiting consumer spending, and higher energy costs.

Antonio Corrêa de Lacerda, partner of Macrosector Consultants, believes services sector recovery will come only at the end of 2016 or early 2017. Until then, the services sector is likely to continue cutting jobs, depressing further the economy.

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Darcilio Junqueira



brakes," says Christian Travassos, economy manager of the Federation of Commerce of Rio de Janeiro State, which represents 348,000 establishments offering goods, tourism, and other services in that state. High inflation, high interest rates, and unemployment have been hard for commerce and the services sector, he says.

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Darcilio Junqueira, superintendent of the Union of Hotels, Bars and Restaurants of Rio de Janeiro, confirms that the services sector is suffering from the effects of the economic downturn and suggests the situation is particularly serious in Rio: "Investigations of corruption at Petrobras and the company's cuts in investments have hit many suppliers, which has suppressed commerce and services." He says that eating out was one of the hardest-hit areas: "Even those who continue eating out have cut spending on meals, and we are also suffering from the downturn in tourism as well as rising unemployment." Junqueira calculates that turnover in Rio's service sector is down 10% compared to 2014.