Service Sector Survey

Table 1 – GDP composition by sectors[1]

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Sector	2004	2005	2006	2007	2008	2009
Crop/livestock	5.9	4.9	4.7	4.8	5.0	5.2
Industry	25.8	25.1	24.7	23.9	23.3	21.8
Services	54.1	55.8	56.5	57.3	56.8	58.9
Net taxes	14.2	14.2	14.1	14.0	14.9	14.0

Source: IBGE

1/ Values at current prices.

The growing participation of the service sector in the country's Gross Domestic Product (GDP) – it accounted for 58.9% in 2009, as compared to 54.1% in 2004, as shown in Table 1 – evinces the need for monitoring the short-term trends of this sector's segments. In this context, the Getulio Vargas Foundation, in partnership with the Central Bank, developed the Service Sector Survey.

Among other things, this survey aims to generate indicators to predict economic trends within the sector. It consists of a monthly national survey of over 2,000 companies with one or more employees. The coverage of the service sector activities is similar to that of the Annual Service Survey (PAS) of the Brazilian Institute of Geography and Statistics (IBGE), which covers the entire service sector, with the exception of the government, the health sector, part of educational, financial and trade activities.

Thus, the results are disclosed to the service sector as a whole, divided according to scale (small, medium, and large), and by seven segments:
– household services (housing; food; recreational and cultural activities; personal services and continuing educational activities);
– information services (telecommunications; computer activities; audiovisual services; news agencies and journalism services);
– business services (legal, accounting, and business consultancy activities; architecture and engineering services; materials testing and product quality analysis; advertising, selection, management, and leasing of temporary labor; investigative services; security, surveillance, and transportation of

valuables; home and building cleaning services and other business services);

– transportation, auxiliary transportation services and mail (rail and subway transport; road transport; water transport; air transport; travel agencies and tour operators; and other mail delivery activities);

– real estate activities and rental of movable and immovable property (incorporation, purchase and selling of real estate; management, brokerage, and real estate rental to third parties; and rental of vehicles, machinery, and personal and household objects);

– maintenance and repair services (vehicle maintenance and repair; maintenance and repair of personal and household objects; and maintenance and repair of office machinery and computers);

– other service activities (ancillary services related to agriculture; trade agents and commercial representation; ancillary; financial; insurance and pension funds; and urban sanitation and sewage services).

These segments were defined according to the IBGE National Classification of Economic Activities, version 1.0 (CNAE 1.0). The result for each segment is obtained by aggregating the estimated proportions for the three scales, weighted according to the total number of persons employed by each company on the basis of data compiled by the Ministry of Labor's Annual List of Social Information (RAIS). The result for the service sector is derived from the aggregation of estimated proportions for 31 segments, according to the segment's value added, based on the IBGE PAS, with the exception of items related to employment, which are weighted by the total number of employed persons disclosed by the PAS.

Answer options for proposed questions are mostly qualitative, thus making it easier to carry out an immediate assessment of the sector's cyclical state. One of the research key attributes is the quickness with which data is collected, processed, and disclosed, without the need for further revisions. Data thus obtained provide for signals in the three to six month time horizon as of the disclosure's reference month.

Assessments on the current scenario refer to the variable's level or situation at the time of research (good, normal or bad situation). Predictions for the future and observations on the recent past are made in a comparative manner (situation expected to improve, remain unchanged, or worsen). Some questions are addressed to the company as a whole, such as the items related to employment standards, factors that limit the business improvement, and credit conditions, while others are related to the level of services offered. When the company supplies more than one relevant line of services, answers are provided for each of these lines. The Survey's questions are related to the following items:

– current state of business: the study seeks to capture the company's sentiment in relation to the general state of business. Typically, when evaluating the state of business, companies take into consideration microeconomic factors, such as profit and revenue margins, and macroeconomic factors that affect their performance, such as interest and exchange rates, as well as tax burden. As for the timeframe, the state of business is evaluated in relation to the moment the survey is being conducted;

– business trends: companies should evaluate, disregarding seasonal effects, if the state of business over the next six months will improve, remain unchanged, or worsen;

– forecast employment: the objective is to prospect for the next three months the company's contingent manpower in relation to the survey's reference month;

– volume of current demand: the purpose is to assess the current level of demand for the company's services at the survey's reference month;

– expected demand: the company should estimate, disregarding seasonal effects, how the volume of demand for its services would evolve over the next three months;

– sales forecast: the objective is to measure the prospects for the next three months in relation to the survey's reference quarter;

– price: evaluates the outlook for the company's prices during the quarter following the survey's reference month;

– credit conditions: seeks to assess the degree of difficulty in acquiring credit in the banking system in the survey's reference month;

– limiting factors to improving the state of business: if they exist, the company should select the most important factors among six suggested factors, or specify a factor not included in the survey.
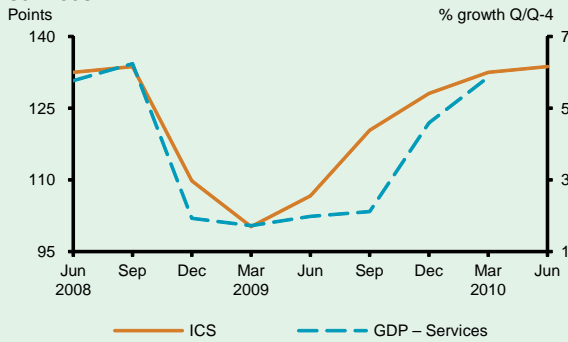
For each of the survey's items, a summary indicator is created, based on the proportion of favorable responses to the question minus the proportion of unfavorable responses, plus 100. Thus, if the proportion of favorable responses is equal to the proportion of unfavorable responses, the indicator remains at 100 points, denominated the zone of indifference. Values above 100 indicate optimism and values below 100, pessimism.

The Service Confidence Index (ICS), the survey's summary index, represents the arithmetic mean of two indicators: the Current Situation Index (ISA-S) and the Expectations Index (IE-S). The ISA-S is calculated by the arithmetic mean of current state of the business situation and the volume of current demand items. Similarly, the IE-S is equal to the arithmetic mean of the business trends and the expected demand items.

The ICS trajectory, according to the historical series begun in June 2008, seems consistent with the recent service sector developments. Accordingly, after increasing in the first three months, the ICS started to drop as of August of 2008, reaching the minimum value in January 2009, coinciding with the worsening of the world financial crisis. It is worth highlighting the good adherence of the ICS quarterly average to the GDP service sector indicator released on a quarterly basis by the IBGE, as shown in Figure 1. The ICS mean observed in the early months of the second quarter of 2010 suggests the persistence of service sector activity growth, which shall reflect on the next GDP results.

Figure 1 – Services Confidence Index (ICS) and GDP services

Sources: IBGE and FGV

Figure 2 – Service Confidence Index

Sources: IBRE/FGV and BCB

The analysis at the margin, shown in Figure 2, reveals that the index fell 1.1% in April, in relation to the previous month, reaching 134 points, lower than in the previous month, 135.5 points, and in August 2008, 138.4 points, only. At the margin, ISA-S increased 1.2% in the month, to 119.4 points, the highest value since October 2008, and IE-S, in spite of a 2.9% drop, to 148.6 points, remained at a high level.