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HSBC Brazil Services PMI (with Composite PMI data)

Brazilian service sector activity rose for first time in almost a year

Summary

Latest data from the *HSBC Brazil Services PMI* showed that Brazilian service sector activity recovered in August, ending a ten-month period of contraction. However, growth remained subdued in comparison to the trend recorded prior to the downturn. Meanwhile, Brazilian manufacturing production grew for the second time in three months, and at the fastest pace since July 2008. Consequently, the HSBC Brazil Composite Output Index also breached the no-change threshold of 50.0 to signal a moderate expansion in overall output.

Underpinning the increase in services activity was a marked rise in incoming new work. Moreover, new business grew at the fastest pace since June 2008. Higher demand for services mainly resulted from improved economic conditions, although some reports also linked this to new product launches. However, data indicated that price discounting continued to provide a boost to demand. Concurrently, manufacturers reported new order growth for the first time in a year, although the increase was only modest. Reflecting the sector data, the Composite New Orders Index signalled a solid expansion in overall new business.

Brazilian service firms cut their tariffs in August for the eighth month in succession. The decrease was moderate, and broadly similar to the rates of decline recorded since April. Anecdotal evidence suggested that companies reduced their charges to remain competitive. Manufacturers also trimmed their rates, and for the same reason. The Composite Output Prices Index showed a solid drop in average charges.

Input costs continued to rise across Brazil's service sector economy in August. Furthermore, inflation accelerated for the second straight month, to the fastest since May. Panel members attributed the latest round of inflation to higher taxes and more expensive raw materials. In contrast, purchasing costs in the manufacturing industry fell again, albeit only fractionally. Reports indicated that the relative strength of the real, especially against the US dollar, exerted downward pressure on prices. The Composite Input Prices Index indicated a moderate overall rate of inflation.

For the first time in eleven months, Brazilian service companies hired more staff. The rate of expansion was moderate, but slower than the average prior to the October 2008 – July 2009 downturn. Meanwhile, employment in Brazil's manufacturing industry was broadly unchanged since July. Cost-cutting and efficiency gains were the main factors deterring companies in the sector from expanding their workforces. The Composite Employment Index registered above the neutral level for the first time in almost a year and indicated slight growth.

Workloads across Brazil's service and manufacturing sectors remained manageable in August, despite growth of new business. This was reflected by the Composite Backlogs of Work Index, which signalled a slight overall depletion of work-in-hand.

Comment

Commenting on the Brazil Services and Composite PMI data, Andre Loes, Chief Economist, Brazil, at HSBC said:

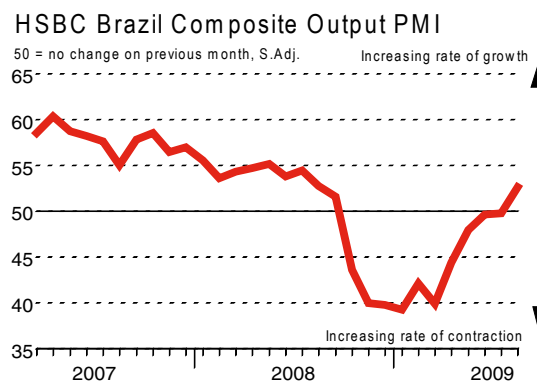
"The services Business Activity Index came back to positive territory in August (52.9, on a seasonally adjusted basis) for the first time since last September. Although still below pre-crisis trend – the index averaged 54.7 for the 12 months ending in September 2008 – it represents a sound improvement since July. Both the Employment and the New Business sub-indices showed more vigorous progressions, with the former moving out of negative territory, suggesting that the services PMI may continue to signal activity growth going forward. Despite the favourable developments mentioned above, companies continued to reduce their charges.

"The composite PMI (manufacturing and services) also climbed above the no-change threshold, supporting the view that the recovery of economic activity gained momentum and 2H09 should see an acceleration of the rise in capacity utilization and in employment growth."

Key points

- Brazil Services Activity Index at 52.9, up from 49.7 in July.
- Brazil Composite Output Index at 52.6, up from 49.8 in July.

Historical overview



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Notes to Editors:

The HSBC Brazil Services PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC Brazil Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Brazilian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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