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The HSBC Brazil Services PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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HSBC Brazil Services PMI

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

Key findings:

- Output grew at moderate pace, and for first time since last September.
- New business expanded at accelerated pace.
- Employment rose after ten months of contraction.

Latest data from the *HSBC Brazil Services PMI* showed that Brazilian service sector activity recovered in August, ending a ten-month period of contraction. The headline Business Activity Index posted 52.9, up from 49.7 in July, to signal a moderate rise in output. However, growth remained subdued in comparison to the trend recorded prior to the downturn.

Underpinning the increase in activity was a marked rise in incoming new work to Brazilian service providers. Moreover, new business grew at the fastest pace since June 2008, and one that was greater than the historic trend for the series. Reports signalled that higher demand for services mainly resulted from improved economic conditions, while some reports also linked this to new product launches. However, data indicated that price discounting continued to provide a boost to demand.

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 in order to remain competitive.

Average input costs rose across Brazil's service sector economy during the latest period, as they have done since the survey began in March 2007. 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. That said, inflation remained weaker than the long-run series average. Reports indicated that the rate of increase was tempered by the relative strength of the real, especially against the US dollar, which made imported inputs cheaper.

Optimism amongst Brazilian service firms rose during August to the highest for three months, with more than three-fifths of the survey panel anticipating greater activity levels in twelve months' time. A better economic situation was a commonly cited reason for confidence. New contract agreements, efforts to improve service quality and investments in new products also contributed to positive sentiment, according to respondents.

Optimism about future business activity was reflected in employment levels in August. 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.

Data signalled that workloads in August remained manageable, despite further growth of new business. Volumes of unfinished work were depleted for the third month running, and at an accelerated pace. Respondents stated that the re-starting of delayed projects and increased productivity were the primary factors underlying the latest reduction in

Business Activity Index



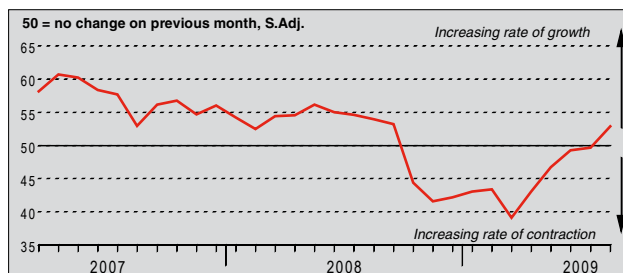
The survey uses a methodology identical to the HSBC Brazil Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Brazilian services economy.

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously.

Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	9.0	60.7	30.2	-21.2
	Apr	17.1	55.1	27.8	-10.8
	May	10.1	77.0	12.9	-2.8
	Jun	8.4	81.3	10.3	-1.9
	Jul	8.5	81.4	10.1	-1.6
	Aug	21.6	63.6	14.8	6.9

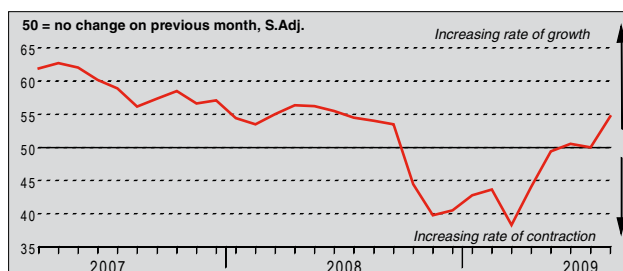


Brazilian service providers reported growth of business activity during August for the first time in almost a year. Up from 8.5% in July, almost 22% of the survey panel noted higher output, largely attributing this to improved sales volumes. In comparison, less than 15% of companies reduced activity levels over the month. However, the moderate expansion was weaker than the average pace prior to last October, when the downturn in the sector began.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	8.4	58.8	32.8	-24.5
	Apr	16.9	57.0	26.1	-9.2
	May	14.8	70.4	14.8	0.0
	Jun	13.6	72.5	13.9	-0.3
	Jul	11.8	72.0	16.1	-4.3
	Aug	25.8	62.7	11.4	14.4

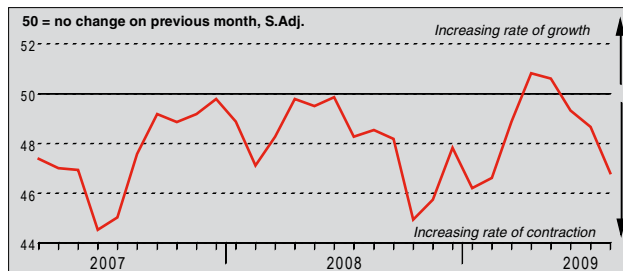


Incoming new work to the Brazilian service sector rose for the third month running in August. Furthermore, the rate of growth accelerated over the month to the fastest since June 2008. Data signalled a marked expansion that was broadly on a par with that recorded over the same period in 2008. Anecdotal evidence suggested that improved economic conditions underpinned the latest gain in new business. Some companies also mentioned new product launches.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	9.5	82.0	8.5	0.9
	Apr	19.7	70.0	10.3	9.4
	May	7.0	83.8	9.2	-2.2
	Jun	6.6	82.8	10.6	-4.0
	Jul	4.0	85.4	10.6	-6.6
	Aug	6.6	78.8	14.6	-8.0

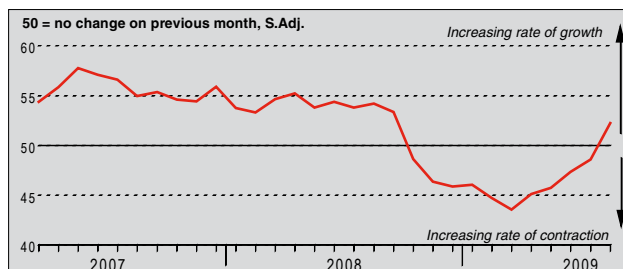


Brazilian service firms continued to make inroads into outstanding business during the latest survey period. Backlogs have been depleted for three months running, which firms linked to the re-starting of delayed projects and increased productivity. Additionally, the rate of decline accelerated in August to the fastest for six months. With around 15% of service firms reducing the amount of work-in-hand at their units, the decrease was also more marked than the long run trend for the series.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

		Higher %	Same %	Lower %	Net +/-
2009	Mar	5.3	76.9	17.8	-12.5
	Apr	5.8	79.9	14.4	-8.6
	May	7.3	77.4	15.3	-8.0
	Jun	6.8	80.3	12.9	-6.1
	Jul	6.6	83.0	10.5	-3.9
	Aug	14.5	77.2	8.3	6.3

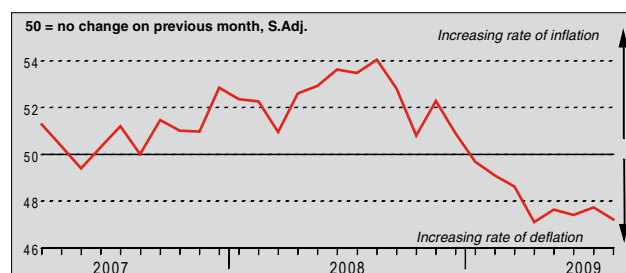


In line with the upward trend in incoming new business, staffing numbers across Brazil's service economy rose during August. It was the first time in eleven months that an expansion in employment had been recorded. Approximately 15% of companies took on more personnel over the month, against less than 7% in July. However, the rate of job creation was milder than the series average prior to the October 2008 – July 2009 period of contraction.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	2.8	89.4	7.8	-5.0
	Apr	5.7	84.4	9.8	-4.1
	May	5.7	84.2	10.1	-4.4
	Jun	2.6	88.4	9.0	-6.4
	Jul	2.9	90.2	6.8	-3.9
	Aug	3.6	87.5	8.9	-5.2

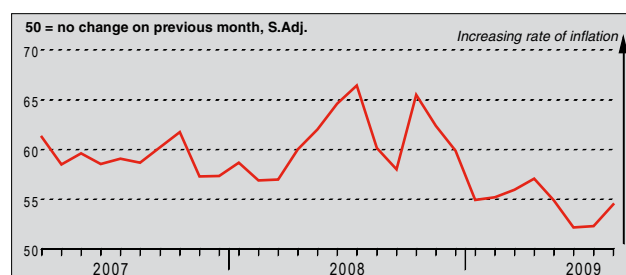


Output prices across Brazil's service economy fell during August, extending the current period of decline to eight months. Moreover, the rate of decrease accelerated slightly to the fastest since April. However, month-on-month reductions over the April – August period have varied little, as shown by the sideways trend of the seasonally adjusted Prices Charged Index. Panel members stated that strong competition continued to exert downward pressure on charges.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	16.2	79.8	4.0	12.1
	Apr	19.9	73.7	6.3	13.6
	May	11.7	84.5	3.8	7.9
	Jun	9.4	86.0	4.5	4.9
	Jul	7.5	89.2	3.3	4.2
	Aug	15.0	80.3	4.7	10.3

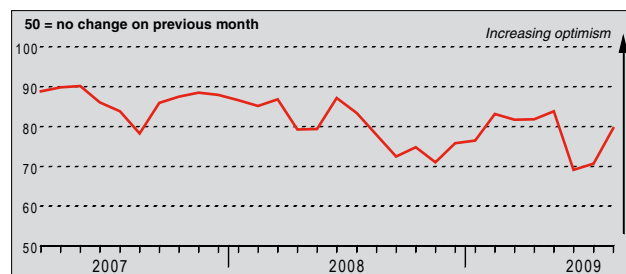


Input price inflation in the Brazilian service sector accelerated during August to a marked pace. The increase was the fastest for three months, but nevertheless remained weaker than the series' long term trend. The relative strength of the real, particularly against the US dollar, prevented prices from increasing more quickly. Higher taxes and more expensive raw materials were the main contributors to the latest round of inflation, according to panellists.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-
2009	Mar	71.4	20.6	7.9	63.5
	Apr	68.5	26.7	4.8	63.7
	May	72.5	22.8	4.7	67.7
	Jun	41.5	55.2	3.3	38.2
	Jul	43.7	54.0	2.3	41.4
	Aug	62.8	33.6	3.5	59.3



Confidence amongst Brazilian service firms regarding activity levels over the coming twelve months rose in August to its highest level since May. Additionally, optimism was stronger than over the same periods in 2007 and 2008. An improving economic situation was commonly given by firms as a reason for positive sentiment. Other factors contributing to confidence were new contract agreements and company investments, both in improving service quality and in new products.

Notes on the Data and Method of Presentation

The Brazil Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

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