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## HSBC Brazil Services PMI (with Composite PMI data)

Brazilian service sector activity growth remained solid

### Summary

The headline Business Activity Index registered 52.5 in September, down only fractionally from 52.9 in August. The latest figure pointed to a solid rise in Brazilian service sector output. Underlying this increase in activity was an expansion of incoming new work, alongside another depletion of backlogs. In contrast, manufacturing production grew at an accelerated pace that was the fastest for fourteen months. Reflecting the sector data, the HSBC Brazil Composite Output Index climbed slightly since August to show a firm rise in all-sector output.

New business placed with Brazilian service providers grew for the fourth month running in September, and at a robust pace. Anecdotal evidence suggested that higher demand resulted from improved economic conditions and increased investment by customers. Some firms also noted better demand for their services from abroad, especially China. However, growth remained subdued in relation to its pre-crisis trend. New business placed with manufacturers expanded for the second straight month, and at a strong rate. Moreover, the rise was the most-marked since April 2008. The Composite New Orders Index posted its highest reading for sixteen months, signalling a marked gain in total new work.

The volume of outstanding business across the Brazilian service sector fell at a modest pace during the latest survey period. Work-in-hand has been in decline for four straight months, although September's depletion was weaker than in August. Reports indicated that some companies had worked longer hours to catch up on unfinished contracts. Meanwhile, uncompleted orders continued to accumulate at manufacturers, and at an accelerated pace. The Composite Backlogs of Work Index signalled no change in the overall level of outstanding work.

Employment in the Brazilian services economy increased for the second month running in September. Job creation was modest but weaker than in August, with the vast majority of firms (about 87%) maintaining personnel levels. In the manufacturing industry, staffing numbers rose for the first time in a year, albeit only slightly. Consequently, the Composite Employment Index registered a marginally higher reading to indicate a moderate increase in all-sector employment.

Brazilian service providers noted another rise in their average input costs in September, which they mostly linked to greater raw material (particularly steel) prices. Input price inflation was solid, albeit weaker than in August. Reports indicated that the relative strength of the real and successful negotiations with suppliers had limited inflationary pressures. Input price inflation in manufacturing was slightly faster than in the service sector. It was the first time since January that rising purchasing costs had been recorded. Reflecting this, the Composite Input Prices Index rose for the third month running to signal a robust rate of increase.

Despite further growth of input costs, prices charged for Brazilian services continued to fall. However, the rate of decline was only marginal and the mildest for eight months. Where tariffs were increased, this was primarily to take advantage of better demand conditions or to pass on greater cost burdens to customers. A broadly similar trend was recorded in the manufacturing sector and, as a result, the Composite Output Prices Index posted at a level indicative of a marginal drop in total charges.

### Comment

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

*"The September HSBC Brazil Services PMI data confirm a positive trend for service sector activity. Despite the headline business activity index posting slightly lower than in August (although still showing moderate growth), we highlight the persistence of a strong expansion of new business, which is always a good indication for the sector going forward. On a negative note, margins stayed under pressure, as the prices charged index remained below the critical threshold, while the input prices index continued to signal inflation."*

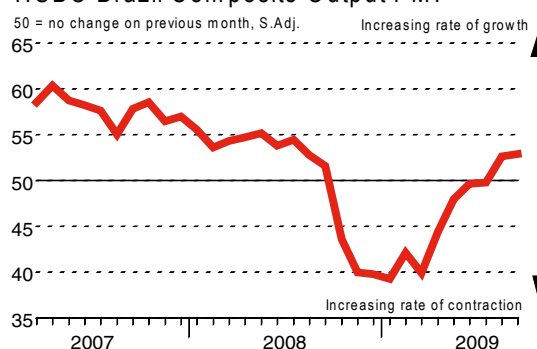
*"The HSBC Brazil Composite Output Index, at 52.9, was marginally higher than in August. This points to an increased momentum of economic activity as we approach Q409."*

### Key points

- Brazil Services Activity Index at 52.5, down from 52.9 in August.
- Brazil Composite Output Index at 52.9, up from 52.6 in August.

### Historical overview

HSBC Brazil Composite Output PMI



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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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