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HSBC Brazil Services PMI

Brazilian service sector activity growth remained solid.

Key findings:

- Rates of expansion in activity and new business little-changed since August.
- Input price inflation eased, while charges fell only marginally.
- Confidence regarding activity growth over the next year lowest in series history.

Brazil's services economy continued to recover from its recent downturn during September, albeit more slowly than in August. Growth rates of activity, new business and employment all slowed on the month, but remained above or broadly on a par with their long-run trends. Meanwhile, input price inflation moderated and charges decreased at the weakest pace since January.

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.

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.

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.

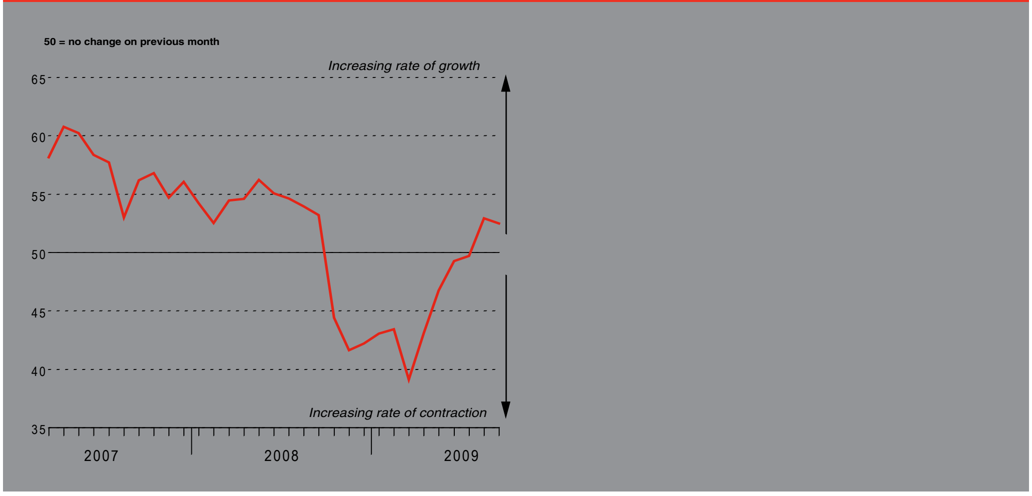
In line with the trend in new business, employment in the Brazilian services economy increased for the second month running during September. The rate of job creation was modest and weaker than in August, with the vast majority of firms (approximately 87%) making no changes to their personnel numbers.

Confidence amongst Brazilian service firms regarding future activity growth fell during September. The majority of the survey panel (around 65%, the largest percentage to date) expect output levels to remain broadly stable over the proceeding twelve months. Nevertheless, one-third of companies anticipate higher activity in the next year.

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.

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.

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.

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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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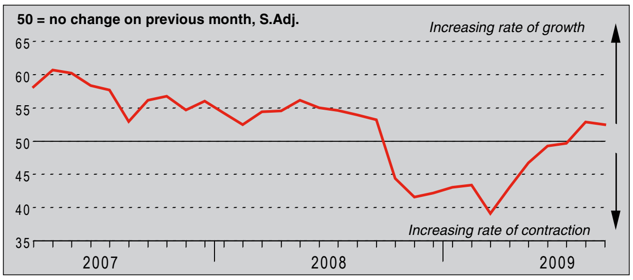
Business Activity Index

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	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
	Sep	12.7	80.1	7.2	5.5

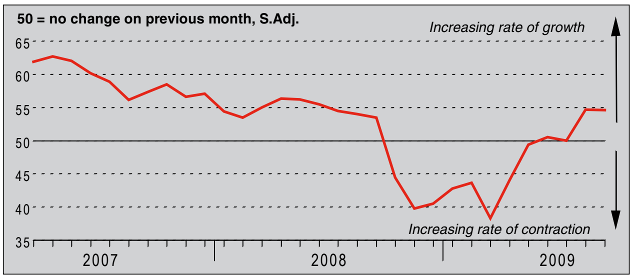


Brazilian service sector activity expanded for the second straight month in September, following a contractionary period that lasted from October 2008 to July 2009. The rate of increase was solid and little-changed from that recorded in August. Anecdotal evidence suggested that output grew in line with the trend in new business. Data also showed that another depletion of unfinished work contributed to the latest rise in services activity.

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	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
	Sep	17.6	74.9	7.5	10.1

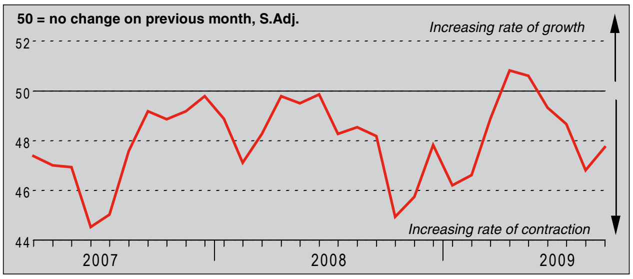


Demand for Brazilian services rose at a robust pace during September, extending the current sequence of expansion to four months. Panel member accounts indicated that conditions in the domestic market had improved, with several firms benefiting from increased investments at their clients. Some reports noted that more work had been received from foreign customers, particularly those in China. However, in comparison to the trend prior to the October 2008 – May 2009 downturn, the rate of new business growth was muted.

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	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
	Sep	4.3	89.0	6.7	-2.3

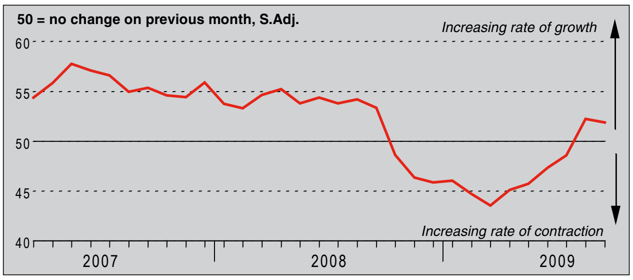


After accounting for seasonal variations, the Outstanding Business Index climbed in September from August's six-month low. The rise in the index reflected further growth of new orders and signalled a milder contraction of work-in-hand. The latest reading showed a moderate rate of depletion, with less than 7% of the survey panel making inroads into backlogs (down from around 15% in the previous month). Some companies worked longer hours to catch up with unfinished business.

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	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
	Sep	8.9	86.5	4.6	4.3

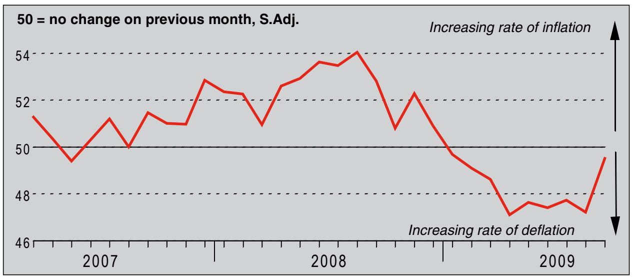


Stronger demand for services led companies in Brazil's tertiary sector to take on more personnel during September. Employment expanded at a modest pace and for the second consecutive month. The rate of job creation was broadly on a par with the series' long term trend, although it slowed slightly since the previous survey period. The vast majority of panellists (around 87%) maintained their workforces over the month.

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	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
	Sep	3.6	92.2	4.2	-0.7

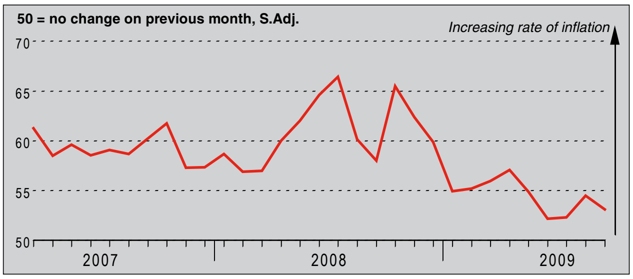


Brazilian service companies continued to reduce their charges during September, mainly due to competitive pressures. Output prices in the sector have now fallen for nine successive survey periods. However, the rate of decrease eased over the month to a marginal pace that was the slowest since January. Where charges were raised, reports suggested that this was mainly to take advantage of improved demand conditions and to pass on greater input costs to customers.

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	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
	Sep	8.9	88.8	2.3	6.6

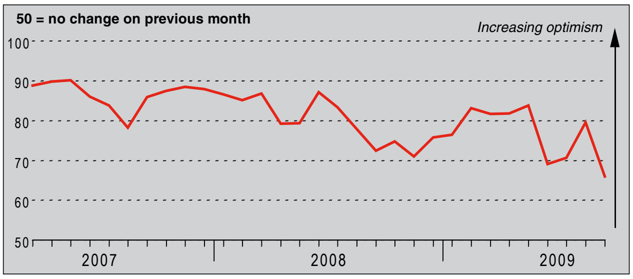


Input price inflation across Brazil's service economy weakened during the latest survey period. This partly reflected the relative strength of the real, particularly against the US dollar. Some companies also reported negotiating lower prices with their suppliers. That said, input cost inflation remained solid and contrasted with the slight deflation in output prices. Higher raw material costs were the primary drivers of inflationary pressure. Respondents commented on greater steel prices in particular.

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	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
	Sep	33.7	64.7	1.7	32.0



Output is set to expand at a relatively modest rate in twelve months' time, as highlighted by the Business Expectations Index sinking to a series record low. Around 65% of panellists expect to maintain their activity levels over the coming year – the largest percentage to date. Just over one-third of survey participants foresee higher output in future, down sharply from about 63% in August. Meanwhile, less than 2% of respondents anticipate lower activity levels – the second-smallest proportion to date.

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.

Warning