HSBC Purchasing Managers' Index 2009

compiled by markit

Embargoed until: 10:00 (SAO PAULO), 4 November 2009

HSBC Brazil Services PMI

Business outlook improved sharply in October, despite modest activity growth.

Key findings:

- Business activity expanded at moderate rate for third month running.
- Growth of new work slowed, but remained solid.
- Input price inflation accelerated. Charges broadly unchanged after nine months of decline.

October data showed another moderate expansion of business activity in the Brazilian service economy, supported by solid growth of incoming new work. More favourable demand conditions tempered competitive pressures, bringing an end to a nine-month downward trend in charges and leading service firms to take on more staff. This contributed to a noticeable rise in positive sentiment regarding output levels in twelve months' time.

The headline seasonally adjusted HSBC Business Activity Index climbed marginally to 52.6 at the start of the fourth quarter, from 52.5 in September. Since activity began rising again in August the index has been virtually unmoved, indicating that growth has remained broadly consistent over the past three months. Sector data showed that higher activity was recorded across all monitored sub-sectors of Brazil's service economy.

New business placed with Brazilian service providers expanded further during October, albeit at a slightly slower rate than over the previous two months. Panel members commented that customers were more willing to invest in their services since economic and financial conditions had improved. Only the Financial Intermediation sector posted a lower volumes of new work.

There was enough spare capacity at Brazilian service units to cope with both new and existing contracts during the latest survey period. Consequently, work-in-hand fell for the fifth successive month. However, the rate of reduction slowed to only a slight pace.

Brazilian service providers hired additional staff for the third straight month in October. Moreover, the pace of job creation accelerated fractionally since September, in line with the trend in business activity. Reports suggested that more personnel were taken on to cope with higher workloads. Growth was centred in the Other Services, Financial Intermediation and Post & Telecommunication sectors.

October marked an end to the recent sequence of decline in output prices across Brazil's service economy. Latest data signalled that charges were broadly unchanged on the month. Some firms took advantage of stronger demand to pass on part of their cost burdens to clients, while others trimmed their tariffs or used promotional discounting to attract more custom.

Input price inflation accelerated to a marked pace during October. Furthermore, the increase was the fastest for six months. Respondents linked the rise to greater employee expenses and higher raw material prices. With the exception of Financial Intermediation, all services sub-sectors saw an enlargement of their cost burdens.

Confidence regarding activity in the year ahead rose sharply in October, bringing it close to its pre-downturn average. Anecdotal evidence suggested that better conditions in the wider economy primarily underpinned the improvement in business sentiment. The most optimistic companies were those in the Hotels & Restaurants sector, although confidence was globally high in all surveyed sub-sectors.

Business Activity Index

Summary of Survey Findings

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.

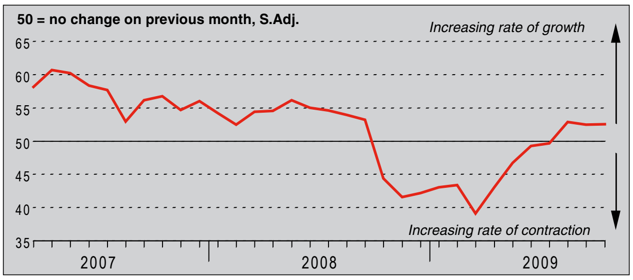
HSBC

The world's local bank

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	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
	Oct	16.1	75.0	8.9	7.2

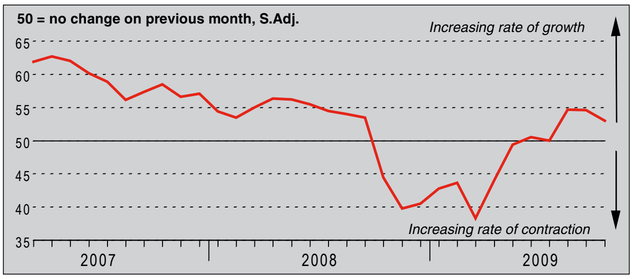


Brazilian service sector activity expanded for the third month running at the start of Q4, and at a similarly modest rate to those recorded in August and September. October's rise was underpinned by further gains in incoming new business, alongside sustained backlog depletion. Output growth was broad-based across all monitored sub-sectors, with Other Services and Post & Telecommunications registering the most marked increases.

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	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
	Oct	16.1	74.0	9.9	6.3

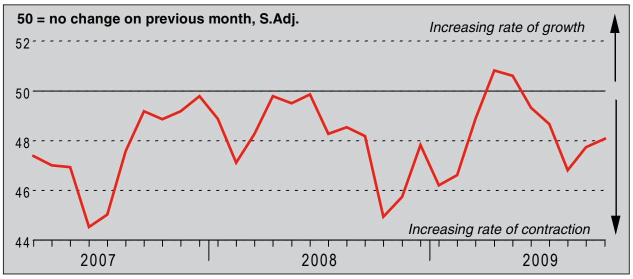


Incoming new business to Brazilian service providers continued to grow during October, extending the current period of expansion to five months. Although the rate of increase eased further from August's fourteen-month high, it remained solid and above the series long-run trend. Reports showed that better conditions in the wider economy had supported customer demand. All-but-one of the sub-sectors covered by the survey saw new work rise on the month. Financial Intermediation posted lower new business levels for the first time since June.

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	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
	Oct	5.0	87.0	8.0	-3.0

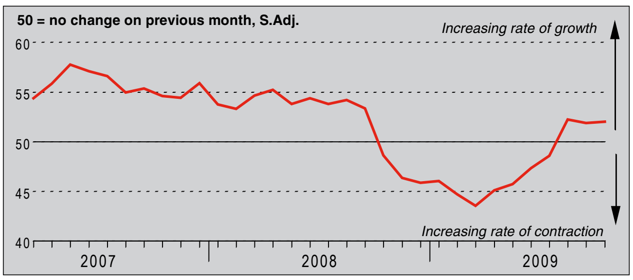


For the fifth successive month in October, Brazilian service companies made inroads into unfinished business. Firms that posted a decline in outstanding work generally commented that they had sufficient capacity to complete both new and existing projects. However, the rate of depletion eased to only a slight pace. The majority of services sub-sectors recorded a fall in, or no-change to, work-in-hand since September. Only Transport & Storage saw a build-up of backlogs.

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	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
	Oct	10.6	83.8	5.6	5.0

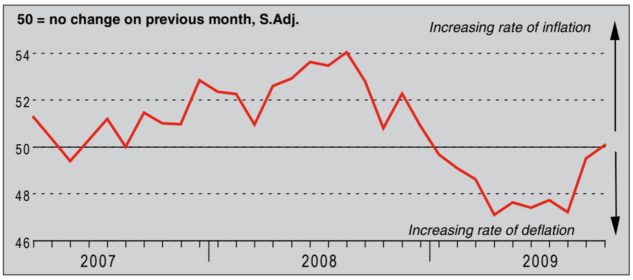


Employment in the Brazilian service economy expanded during October for the third straight month, mirroring the trend in activity. With over one-tenth of survey participants taking on additional staff since September, the pace of job creation accelerated slightly. Anecdotal evidence suggested that greater workloads were behind hiring decisions. Data showed that growth was concentrated in the Other Services, Financial Intermediation and Post & Telecommunication sectors.

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	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
	Oct	5.3	89.5	5.3	0.0

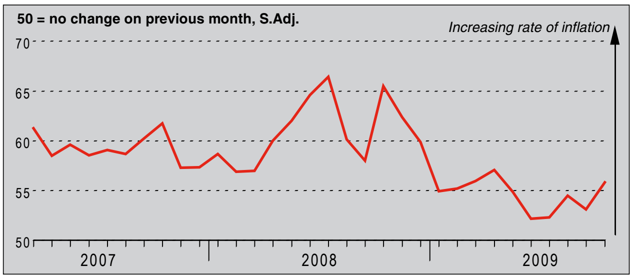


The nine-month downward trend in prices charged by Brazilian service firms came to an end in October. The seasonally adjusted Prices Charged Index registered just above the neutral mark of 50.0 to indicate that output prices were largely unchanged since September. Where firms raised their tariffs, this was primarily due to good demand and higher input costs. Competitive pressures and promotional discounting underpinned price reductions. Only the Financial Intermediation and Transport & Storage sectors continued to post lower 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	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
	Oct	13.2	84.8	2.0	11.2

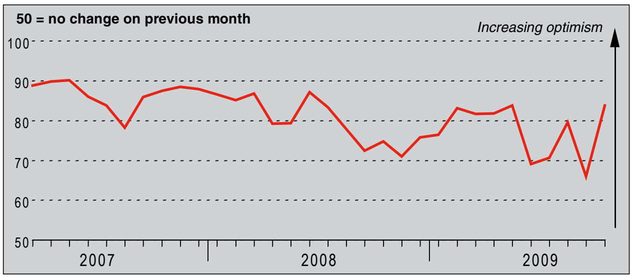


Input price inflation persisted in the Brazilian service economy during the latest survey period. Apart from the Financial Intermediation sector, where input costs were unchanged in October, all of the surveyed sub-sectors recorded marked rises in their average cost burdens. Reports indicated that both higher salaries and more expensive raw materials had contributed to the latest round of inflation, which was the fastest for six months.

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	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
	Oct	70.1	27.6	2.3	67.8



More favourable economic conditions was a key contributor to a sharp jump in positive sentiment amongst Brazilian service firms in October. The Business Expectations Index climbed to a five-month high, with the majority (over 70%) of panellists expecting activity to rise over the next twelve months. Companies in the Hotels & Restaurants sector were the most confident about the future, although all sectors were highly optimistic.

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