

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

Services activity rose strongly in November, buoyed by faster growth of new business

### Summary

The headline seasonally adjusted HSBC Business Activity Index rose noticeably to 55.2 in November moving away from its broad sideways trend of the previous three months. However, the latest expansion remained weaker than the series' pre-downturn trend. Meanwhile, output from the country's manufacturing industry rose sharply. Overall, total private sector activity expanded at a marked pace, as shown by another rise in the HSBC Brazil Composite Output Index.

Primarily supported by improved economic conditions, but also aided by price discounting, new services business rose for the sixth successive month in November. Consequently, new work rose at the most marked pace since April 2008. This brought an end to a five-month run of backlog depletion, with volumes of unfinished business broadly stable over the month. Where work-in-hand fell, reports indicated that this was predominantly as a result of greater efforts to catch up on outstanding contracts. In the manufacturing economy, new orders grew at a substantial rate, causing a marked accumulation of backlogs. The Composite New Orders and Composite Outstanding Business Indices signalled considerable and moderate rates of increase respectively.

As workloads increased during the latest survey period, service companies took on more employees. Data shows that the upward trend in staffing numbers has been of equal duration as that for business activity. The latest expansion of the sector's labour force was solid and the fastest since September 2008. Employment in manufacturing grew more strongly than in the service sector. Reflecting the sector data, the Composite Employment Index pointed to a solid rate of increase overall.

Input prices continued to climb during November, reflecting greater employment expenses and higher fuel and raw material costs. Numerous companies made particular reference to increased diesel and medicine prices. Input price inflation in the manufacturing industry remained marked. The Composite Input Prices Index fell slightly from October's ten-month high.

Despite further input cost inflation, Brazilian service companies cut their charges in November. Strong competition forced firms to absorb greater cost burdens, rather than pass them on to customers. Even so, the reduction in tariffs was only slight. Charge inflation at manufacturers was broadly unchanged. The Composite Output Prices Index indicated that, overall, tariffs fell modestly.

### Comment

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

*"Growth of the Brazilian services sector accelerated in November, after three months of moderate expansion (August to October). Although the headline seasonally adjusted Business Activity Index (at 55.2) kept below its stronger pre-downturn trend (average of 55.9, from March 2007 to September 2008), it is the first time it has indicated robust growth of services activity since mid-2008. Faster growth of incoming new business and employment, as well as higher business expectations, point to sustained service sector activity growth going forward.*

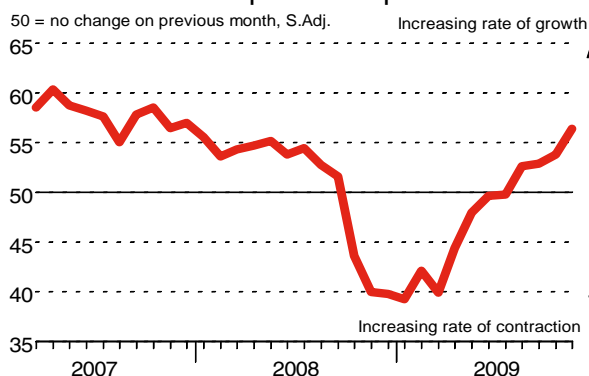
*"Back to levels registered at the end of 2007, the November reading of the HSBC Brazil Composite Output PMI pointed to robust growth. The higher figure for the composite index reflects improved industrial and services activity, and suggests we may be heading for a strong fourth quarter GDP figure."*

### Key points

- Private sector activity and new business both expanded at accelerated rates.
- Overall employment expanded at fastest pace since July 2008.
- Composite input price inflation eased while charges fell slightly.

### 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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