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HSBC Brazil Services PMI

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

Key findings:

- Activity and new business both expanded at accelerated rates.
- Job creation fastest for fourteen months.
- Input price inflation eased while charges fell slightly.

November data showed a further improvement in the performance of the Brazilian services economy, with activity and new business both expanding at marked and accelerated rates. As pressure on capacity showed signs of starting to build, companies hired additional staff. However, competition remained a constraint on service firms' pricing power, resulting in a slight drop in output prices.

The headline seasonally adjusted HSBC Business Activity Index rose noticeably to 55.2 in November, from 52.6 in October, moving away from its broad sideways trend of the previous three months. Brazilian service sector output has now risen for four straight survey periods, following a ten-month long contractionary sequence. However, the latest expansion remained weaker than the series' pre-downturn trend.

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.

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.

Upward trends in activity, new orders and employment boosted business sentiment in November. The vast majority of survey participants foresee higher levels of output over the proceeding year. Anecdotal evidence suggested that economic and financial stability, as well as company investments, were prominent reasons for confidence amongst Brazilian service providers. The 2014 World Cup in Rio de Janeiro and improved tourism are also expected to generate more new work.

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. Panel members have recorded rising input costs throughout the survey's thirty-three month history. That said, rates of inflation since the start of the year have been consistently weaker than the pre-downturn trend.

Despite further input cost inflation, Brazilian service companies cut their charges in November for the tenth time in eleven months. 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 and slower than the average for the year-to-date.

Business Activity Index



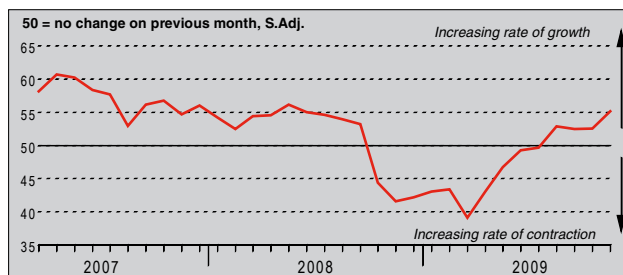
Summary of Survey Findings

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.

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	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
	Nov	19.7	73.5	6.8	12.9

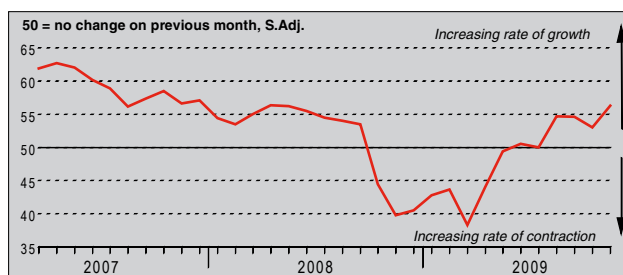


Greater demand for Brazilian services led companies in the sector to expand their activities during November. Approximately one-fifth of the survey panel recorded an increase since October, resulting in a strong overall pace of growth. The seasonally adjusted Business Activity Index has posted above the no-change threshold of 50.0 for four consecutive months, although from August through October it was virtually unmoved. The latest reading was the highest for a year-and-a-half.

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	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
	Nov	23.0	69.3	7.8	15.2

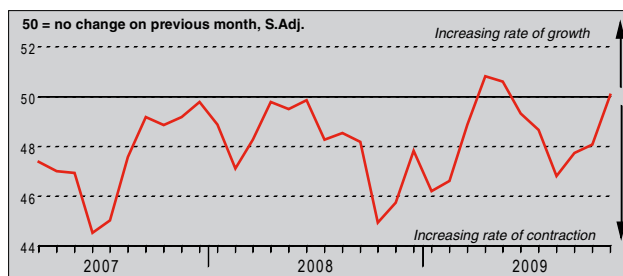


The seasonally adjusted New Business Index jumped to a nineteen-month high in November, indicating a marked rise in incoming new work to Brazilian service providers. A better economic climate underpinned the increase in demand, although some reports indicated that price discounting had also played a part. The index has maintained a general upward trend since April, although it has only signalled growth for the past six months.

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	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
	Nov	7.9	84.5	7.6	0.3

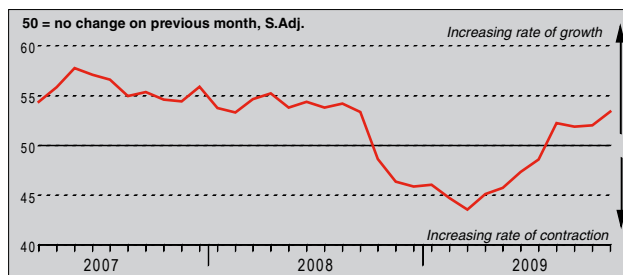


Data suggested that workloads across Brazil's service economy remained manageable during November, despite faster growth of new business. Volumes of work-in-hand were broadly unchanged on the month, as shown by a seasonally adjusted Outstanding Business reading close to the neutral mark of 50.0. Where there were reports of an accumulation, these mostly concerned higher workloads. Meanwhile, falling backlogs were predominantly linked to greater efficiency.

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	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
	Nov	14.0	81.2	4.9	9.1

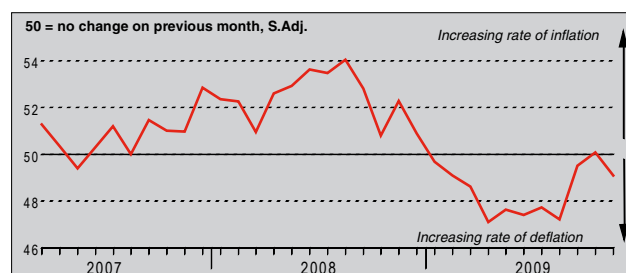


Service providers in Brazil continued adding to their workforces during the latest survey period, extending the current sequence of growth to four months. Exactly 14% of respondents hired staff since October, while job shedding was recorded in less than 5% of cases. Consequently, the pace of job creation picked up to a fourteen-month high. According to panellists, the solid expansion of the sector's labour force resulted from increased workloads.

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	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
	Nov	5.2	89.0	5.8	-0.6

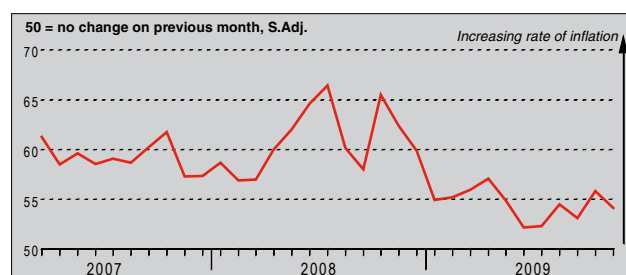


After being largely unchanged during October, charges for Brazilian services fell in November. Output prices in the sector have decreased in ten of the past eleven months, although the latest reduction was only slight and slower than the average for the year-to-date. The majority of service firms (89%) held their prices steady. Anecdotal evidence showed that companies trimmed their rates mainly in order to attract customers from competitors.

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	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
	Nov	12.3	85.4	2.3	10.0

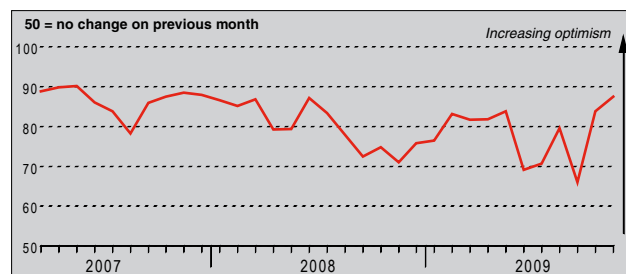


Despite moderating since October, input price inflation in Brazil's service sector remained robust in November. Panel members have noted rising input costs throughout the survey's thirty-three month history, although rates of increase since January have been weaker than the trend prior to the downturn in the sector. Higher salaries and greater fuel and raw material prices were the main sources of inflation during the latest survey period, with firms making particular note of diesel and medicines.

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	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
	Nov	77.5	20.2	2.3	75.2



Positive sentiment about future activity levels was widespread amongst Brazilian service firms during November. Approximately 78% of the survey panel anticipate a rise in output over the coming twelve months. Economic and financial stability, alongside company investment, were key contributors to optimism, while a number of companies also expect more new business relating to the 2014 World Cup in Rio de Janeiro and improved tourism.

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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