

HSBC Brazil Services PMI (with Composite PMI data)

Marked growth of all-sector output in December supported by further rise in total new work

Summary

The headline seasonally adjusted Business Activity Index for services slipped from November's one-and-a-half year high of 55.2 to 54.2 in December. Nevertheless, the latest index reading signalled a robust increase in service sector output. Meanwhile, manufacturers reported a sharp rise in production. The HSBC Brazil Composite Output Index signalled a marked expansion of all-sector activity.

New business taken by Brazilian service companies expanded strongly in December, which panel members linked to favourable economic conditions. Manufacturing new orders continued to rise faster than services new business, but the rate of growth slowed since November. Reflecting the sector data, the Composite New Orders Index indicated a strong rate of expansion.

Despite a further rise in the volume of new work received, Brazilian service firms recorded a decrease in the amount of business outstanding at their units in December. The main reason for this, according to respondents, was a greater effort to catch up on unfinished business. Meanwhile, backlogs at manufacturers continued to build. The Composite Outstanding Business Index pointed to only a modest overall accumulation of work-in-hand.

Service firms added to their payrolls in December, primarily to keep up with greater workloads, but also to aid backlog depletion. Employment rose at a solid pace, and for the fifth straight month. Staffing numbers in manufacturing rose faster than in services, and at a stronger pace than the pre-downturn trend. Consequently, the Composite Employment Index signalled another solid increase.

Higher input prices were recorded by Brazilian service providers during the latest survey period. Anecdotal evidence indicated that increased raw material and wage costs underlaid the rise, which was solid but weaker than in November. Moreover, the latest round of inflation was subdued in relation to the series' long-run average. Input cost inflation in manufacturing was at a similarly marked rate as those posted in October and November. The Composite Input Prices Index was only fractionally lower than in the previous month, showing a robust rate of inflation.

Prices charged by Brazilian service companies were virtually unchanged at the end of Q4. Competition prevented tariffs from being increased in many cases. Where survey participants raised their output prices, this was predominantly to protect profit margins. Manufacturers raised their charges only modestly. The Composite Output Prices Index signalled only marginal inflation.

Comment

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

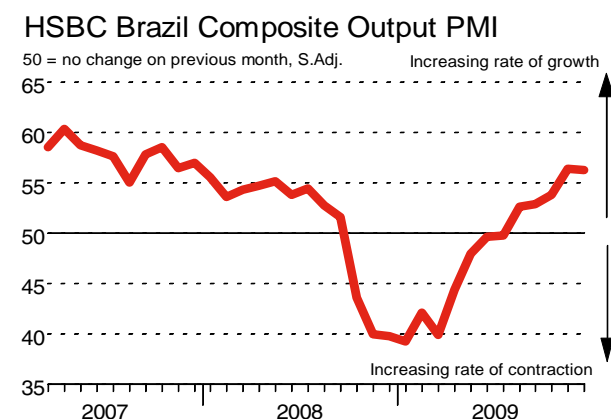
"Services activity grew solidly in December, although at a slightly slower pace than in November. Both the headline Business Activity Index (at 54.2 in December) and the New Business Index registered lower figures, after reaching their peaks for the year in November. The Employment Index showed solid growth of job creation for the second month in a row, while the Business Expectations Index continued to indicate a highly optimistic outlook – although less so than in the previous month."

"As result of further robust services activity growth, and of manufacturing output growth that keeps gaining momentum, the December reading of the HSBC Brazil Composite Output Index was practically stable vis-à-vis November's reading. All in, the Brazilian economy closes the year with robust growth. The indications arising from the Composite New Orders Index add to other high frequency data to suggest that the country's economy may start 2010 on a firm footing."

Key points

- All-sector output rose at a marked pace.
- Total job creation remained solid.
- Composite input price inflation remained robust.

Historical Overview



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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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