# HSBC Purchasing Managers' Index 2010

compiled by markit

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# HSBC Brazil Services PMI

## Business activity continued to grow at robust rate, despite slowing since November.

**Key findings:**

- New business growth slowed, but remained strong.
- Job creation continued at moderate pace.
- Input price inflation slowed, while charges were broadly unchanged.

The business environment faced by Brazilian service providers continued to improve during the final month of 2009. New business and output rose further, leading companies to take on additional staff. As a result, optimism regarding activity levels over the next twelve months remained high. However, growth rates for output, new work and employment all slowed since November.

The headline seasonally adjusted Business Activity Index 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. Activity has risen during every month since August, in line with the trend in new work.

New business taken by Brazilian service companies expanded strongly in December, which panel members linked to favourable economic conditions. Detailed sector data showed that new work rose across all monitored services sub-sectors, with growth most pronounced in Transport & Storage and Hotels & Restaurants respectively.

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.

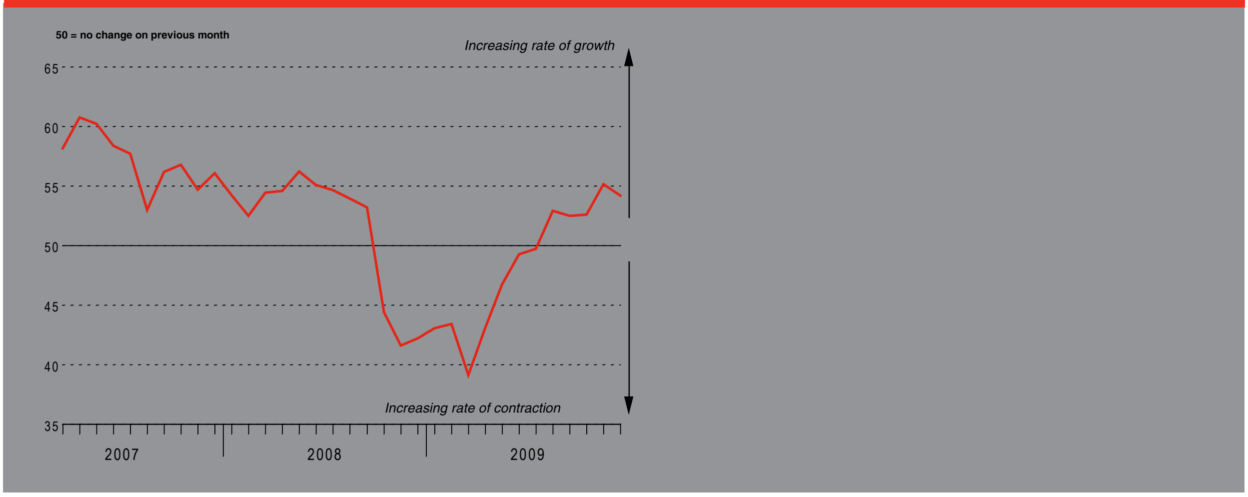
Service firms added to their payrolls in December. This was primarily to keep up with greater workloads, but also to aid backlog depletion. Employment rose at a solid pace, and for the fifth straight month. All monitored services sub-sectors posted an increase in staffing numbers since November, with 'Other' Services and Financial Intermediation registering the fastest expansions.

The outlook for Brazil's services economy in the year ahead continued to brighten in December. The majority of surveyed companies expect economic and financial conditions to remain favourable and output to rise. Improved tourist volumes were also mentioned by several panellists as a source of optimism. However, confidence fell since November to the lowest for three months.

Higher input prices were recorded by Brazilian service providers during the latest survey period, as has been the case throughout the survey's thirty-four month history. 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.

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.

**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.

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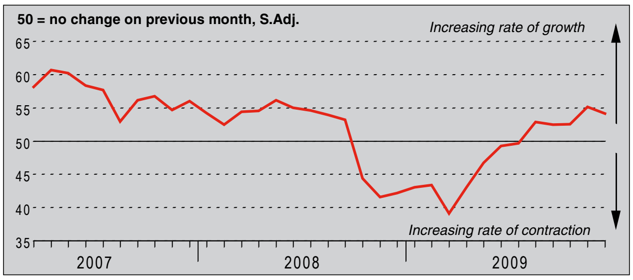
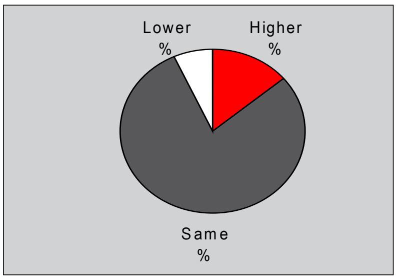
## Business Activity Index

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.

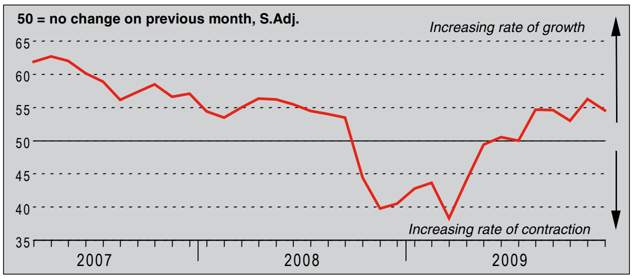


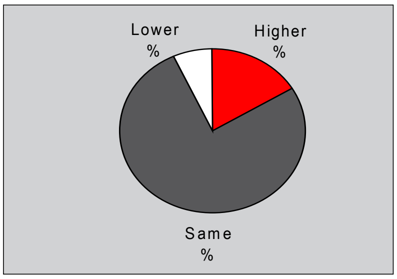




Activity levels across Brazil's services economy rose for the fifth straight survey period during December, which respondents linked to gains in new business. Although still robust, the pace of increase slowed from November's one-and-a-half-year peak. Transport & Storage and Hotels & Restaurants posted the fastest expansions in output, while month-on-month activity growth in the 'Other' Services sub-sector was only modest.

## 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.

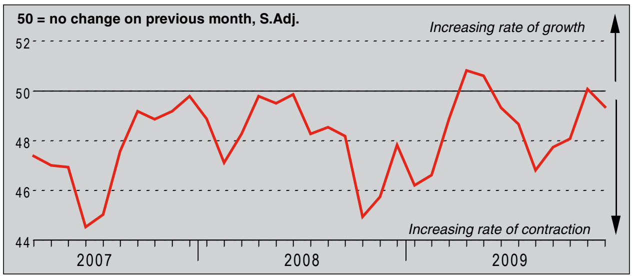


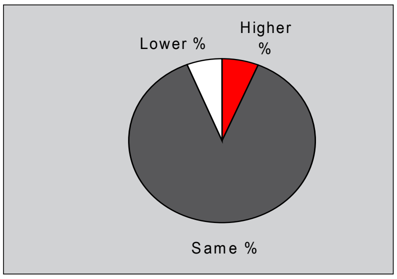




Brazilian service firms received more new work at the end of the final quarter. Incoming new business expanded strongly, albeit less sharply than in November. Anecdotal evidence indicated that better economic conditions had supported demand for services. New work rose across all monitored sub-sectors, with the most pronounced increases recorded by companies in the Transport & Storage and Hotels & Restaurants industries. Renting & Business and 'Other' Services registered the weakest gains.

## 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.

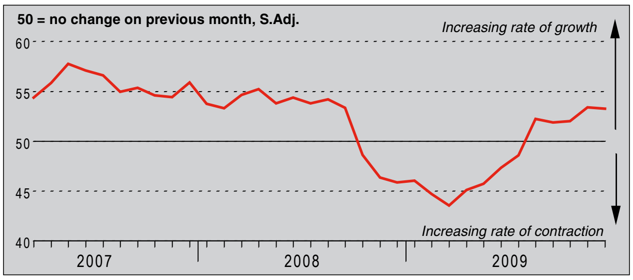


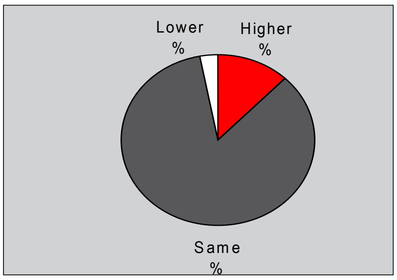




Business outstanding at Brazilian service companies fell in December for the sixth time in seven months. Panel members stated that the decrease was primarily due to efforts to catch up on unfinished work. Nevertheless, the pace of contraction was only marginal, as shown by the seasonally adjusted Outstanding Business Index, which registered just below the neutral mark of 50.0. Data showed that work-in-hand was reduced in half of the monitored services sub-sectors. 'Other' Services recorded the most marked reduction in 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).



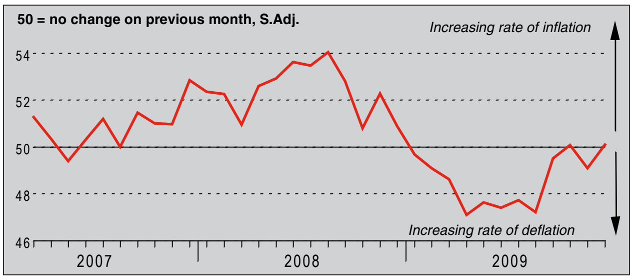



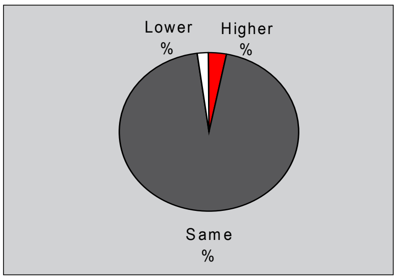

The seasonally adjusted Employment Index pointed to further job creation in Brazil's services economy at the end of Q4. December's figure was almost unmoved from the previous month's, indicating another solid rise in staffing numbers. Greater workloads were mainly behind moves to expand workforces, according to respondents. Efforts to reduce backlogs were also commented on by some firms. Detailed sector data showed that employment grew across all surveyed areas since November.

## 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.

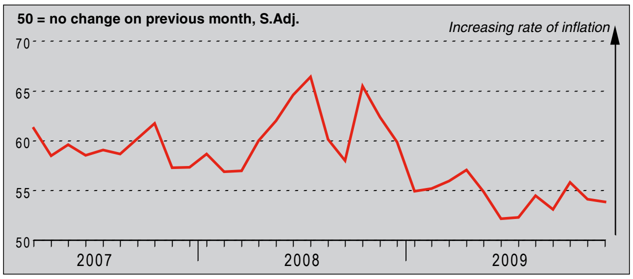


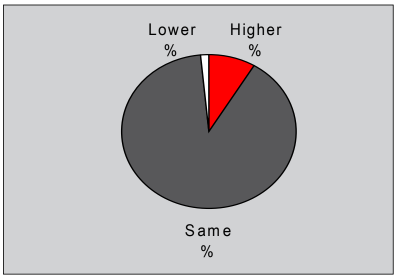




Charges for Brazilian services were broadly unchanged since November. The vast majority of survey participants (approximately 95%) left their output prices at the same level as in November. Where tariffs were raised, panellists indicated that they took advantage of favourable demand conditions to pass on increased cost burdens to customers. Meanwhile, competitive pressures continued to prevent most firms from raising their rates.

## 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.

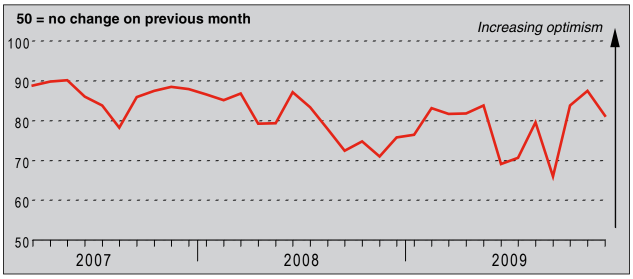


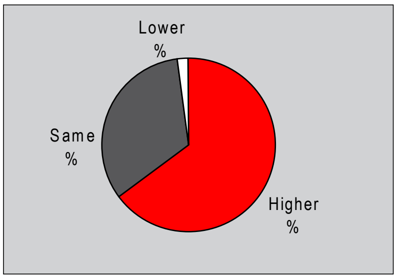




Brazilian service providers noted another rise in their average input costs in December. The seasonally adjusted Input Prices Index has registered above 50.0 during every month of the survey's history, although the latest rise indicated was only moderate and weak compared with the long term trend. Higher raw material and wage costs underpinned the increase, according to panel member reports. The fastest inflation was recorded in the 'Other' Services sector, and the slowest in Financial Intermediation.

## 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?




Optimism regarding activity levels over the coming twelve months remained widespread amongst Brazilian service firms in December. Around 65% of panellists anticipate growth, while only 2% foresee their output falling in the next year. Many companies expect business and financial conditions to remain favourable, while numerous respondents indicated beliefs that tourist volumes will improve. However, business sentiment was less positive than during November.

## 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