

HSBC Brazil Services PMI (with Composite PMI data)

Recovery in Brazilian services continued at robust pace in January

Summary

The headline seasonally adjusted Business Activity Index was unmoved at the start of 2010 from December's level. Registering 54.2, the index pointed to another robust expansion of Brazilian service sector output, but remained below November's one-and-a-half year high of 55.2. Although services activity growth has been maintained for the past six months, it has been weaker than the series' pre-financial crisis trend. In contrast, manufacturing output has grown at an accelerating rate since last August, and has been above its pre-downturn trend for the past three months. The HSBC Brazil Composite Output Index signalled a sharp rise in total activity.

Supporting January's rise in services output was an eighth consecutive monthly increase in new business. Brazilian service providers recorded a solid rise in incoming new work, which they primarily linked to a combination of improved economic conditions and stronger demand levels. Meanwhile, new orders taken by manufacturers expanded at a series record pace. Reflecting the sector data, the Composite New Orders Index pointed to marked overall growth.

Increased workloads and more favourable demand conditions encouraged Brazilian service companies to hire additional personnel during the latest survey period. Job creation accelerated slightly to the fastest pace since August 2008. Staffing at manufacturers rose at the most rapid rate for over two years. The Composite Employment Index climbed to a twenty-one month peak and signalled a robust increase in all-sector employment.

Average input costs faced by Brazilian service providers continued to grow during the first month of the New Year. Furthermore, inflation accelerated to a robust pace that was the quickest for three months. Driving the latest increase were higher prices for raw materials, fuel and wages, according to panellists. Even so, total inflation remained noticeably weaker than the series' long-run average. Concurrently, purchasing costs at manufacturers continued to rise markedly. Overall, input cost inflation was robust, as shown by a slight increase in the Composite Input Prices Index.

Improved demand for services meant that companies were able to pass on part of their greater cost burdens to customers during January. Consequently, charges increased for the second month running, and at an accelerated pace. Manufacturers also raised their tariffs since December. Consequently, the Composite Output Prices Index indicated a faster rate of total charge inflation.

Comment

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

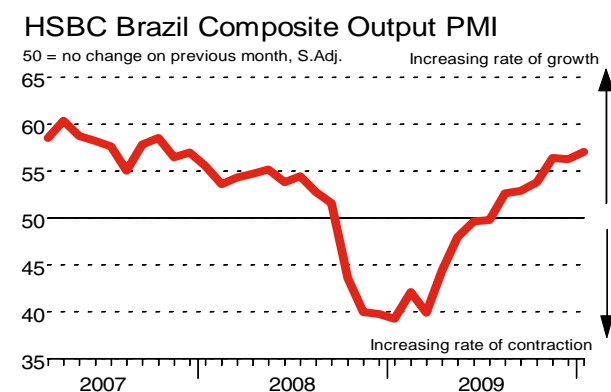
"Services showed another month of robust growth in January. The headline Business Activity Index remained at the same level as in December (54.2). This is slightly lower than November's 55.2, a peak for the post-crisis period, and the below the pre-crisis trend. Most of the other indices ranged around their previous month's level – the New Business Index was slightly lower and the Employment Index slightly higher, but both indicated further solid growth. A more marked change was seen in prices charged by service companies, as they were able to pass through a larger part of input price pressures to final consumers.

"All in, this is a healthy expansionary trend, despite no acceleration in service sector activity growth. This more stable performance of services output, when blended with the much stronger expansion in manufacturing production, resulted in the Composite Output Index posting slightly higher than in December – with the other composite indices showing a similar trend."

Key points

- Growth of total output, new business and employment all accelerated.
- Overall backlogs of work accumulated for fourth straight month.
- All-sector input and output prices both increased at faster rates.

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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