

Embargoed until: 10:00 (SAO PAULO), 3 February 2010

## HSBC Brazil Services PMI

Recovery in Brazilian services continued at robust pace in January.

### Key findings:

- Incoming new work rose solidly.
- Employment growth accelerated slightly.
- Input and output prices both increased at faster rates.

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.

Supporting January's rise in output was an eighth consecutive monthly increase in new business. Brazilian service providers recorded solid growth of incoming new work, which they primarily linked to a combination of improved economic conditions and stronger demand levels. All-but-one of the six monitored services sub-sectors posted an expansion on the month, with 'Other' Services registering a decline in new business.

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. Employment in the sector has now grown for six months in succession. Hotels & Restaurants and Financial Intermediation posted the strongest expansions in staffing numbers.

Despite further growth of new work, Brazilian service firms continued to report falling backlogs in January. Unfinished business has been recorded in the sector since June of last year (except for a negligible rise in November), pointing to spare

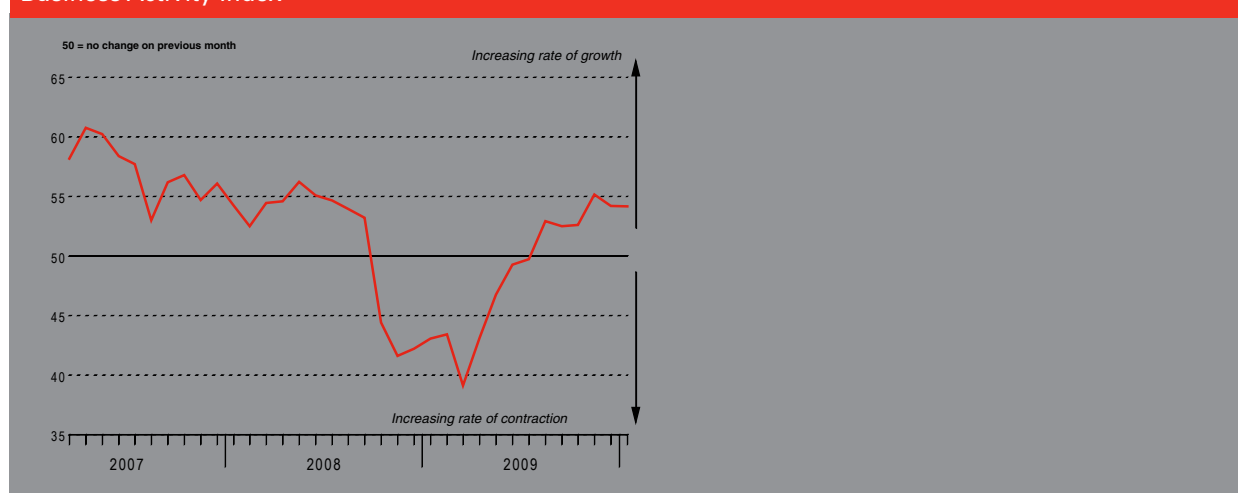
capacity. Anecdotal evidence suggested that service providers depleted work-in-hand in order to catch up on outstanding contracts.

Brazilian service companies remained optimistic in January, with regard to future activity levels. Over half of respondents anticipate that output at their firms will grow over the next year, citing better operating conditions as their main reason for confidence. Positive sentiment was most pronounced in Hotels & Restaurants, and least prevalent in Post & Telecommunications. However, the index tracking trends in business expectations fell sharply since December to its lowest level for four months.

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 most marked for three months. Driving the latest increase were higher prices for raw materials, fuel and wages, according to panellists. Firms in the Post & Telecommunications sub-sector recorded the fastest input cost inflation, followed by those in Renting & Business Activities. Even so, total inflation remained noticeably weaker than the series' long-run average.

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. Tariffs rose most prominently in the Hotels & Restaurants sector.

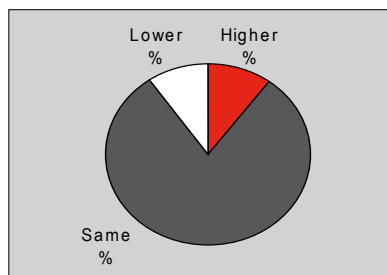
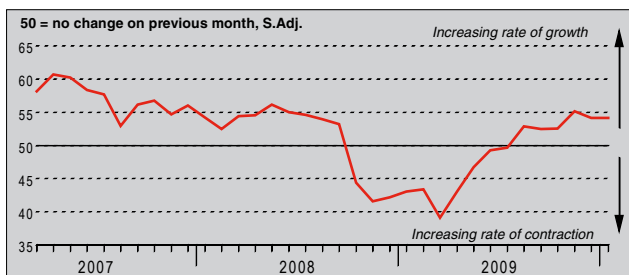
### Business Activity Index



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.

### Business Activity Index

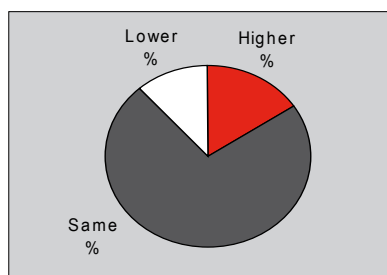
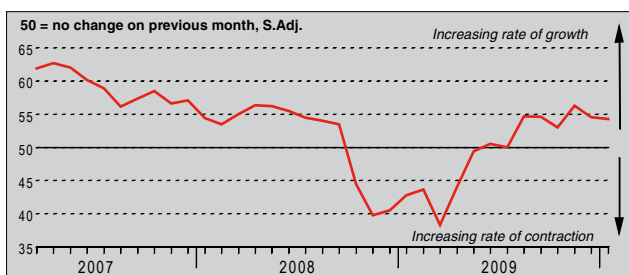
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service providers raised activity levels during January, extending the current sequence of expansion to six months. Unmoved since December, the seasonally adjusted Business Activity Index signalled another solid increase in output. Data showed that all-but-one of the six monitored services sub-sectors registered growth on the month. Only 'Other' Services posted lower activity. Anecdotal evidence indicated that further gains in new work supported the latest rise in total output.

### New Business Index

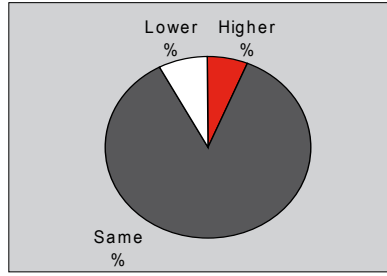
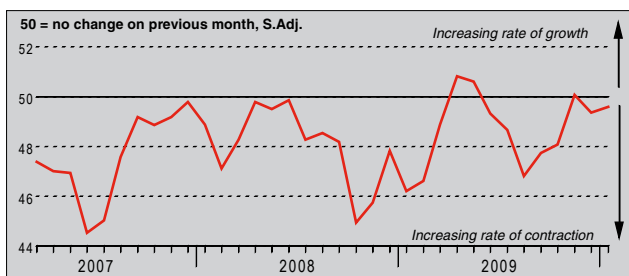
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Reports suggested that a combination of improved economic conditions and stronger demand contributed to January's increase in new business. The seasonally adjusted New Business Index was down fractionally from its level in December, but still signalled a robust rise in incoming new work to Brazil's services economy. Hotels & Restaurants was the best performer, recording a sharp rate of expansion. 'Other' Services, in contrast, performed poorly and was the only sub-sector to show a contraction in new business.

### Outstanding Business Index

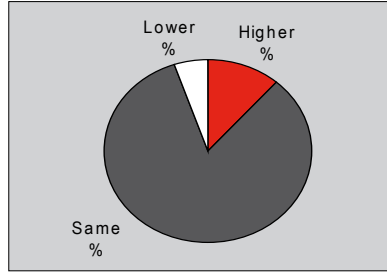
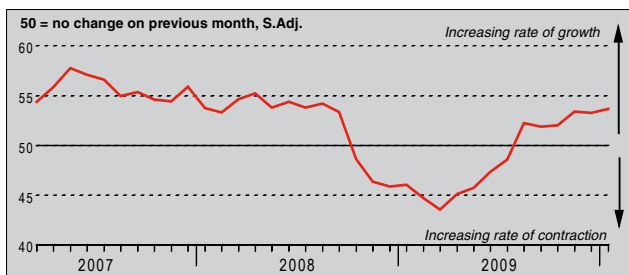
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Volumes of work-in-hand at Brazilian service providers fell for the seventh time in eight months in January, despite further new business growth. The contraction in backlogs suggested that there remained a degree of spare capacity in the sector. Panel members commented on efforts to reduce the number of outstanding contracts. However, the rate of decrease was only marginal, with the vast majority of companies (approximately 86%) seeing no change in the amount of unfinished work at their units.

### Employment Index

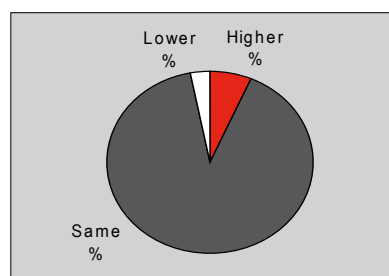
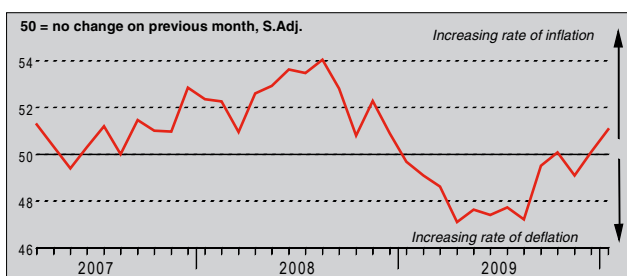
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index rose slightly at the start of Q1 to its highest level since August 2008. The latest figure signalled another solid expansion of staffing numbers at Brazilian service providers. Survey participants linked the increase to greater activity levels and stronger demand for their services. With regard to the services sub-sectors, the fastest rate of job creation was recorded by Hotels & Restaurants, followed by Financial Intermediation.

## Prices Charged Index

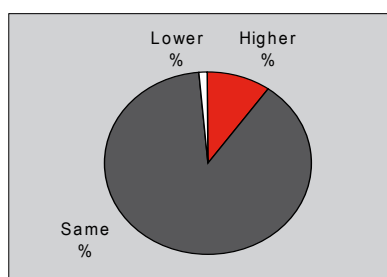
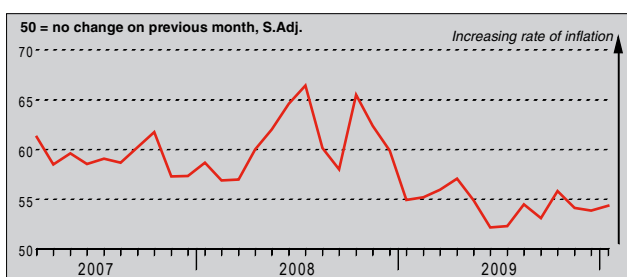
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Taking advantage of stronger demand conditions, Brazilian service companies raised their charges in January. The increase was the third in four months and, although weak compared to pre-financial crisis standards, was the fastest since November 2008. Firms that upped their tariffs did so predominantly to pass on part of their greater cost burdens to customers. Only 'Other' Services and Renting & Business Activities registered lower charges since December.

## Input Prices Index

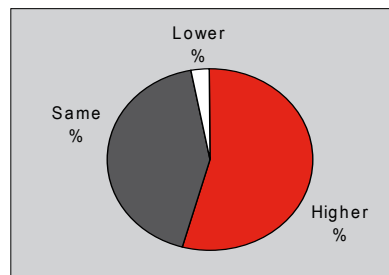
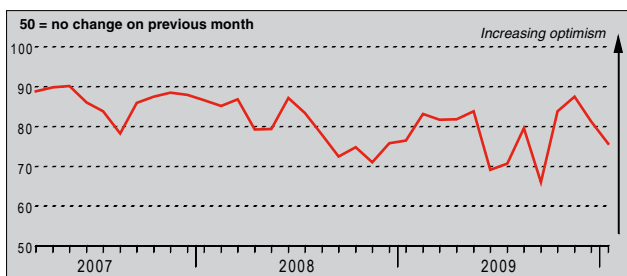
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Greater fuel, raw material and wage costs were the main factors driving the latest round of input price inflation, according to panellists. Average input costs across Brazil's services economy rose at a robust and accelerated pace since December. One in ten respondents reported an increase, against less than 2% that noted a decline. That said, January's inflation was noticeably milder than the series average. Input prices have risen continually throughout the survey's near-three year long history.

## 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?



The Business Expectations Index fell further from November's twenty-three month high during the latest survey period. Although January's reading was below the series' long-run average, it nevertheless signalled that optimism regarding future activity levels remained widespread amongst Brazilian service firms. Over 54% of panel members foresee output rising over the next twelve months, mostly due to more favourable economic conditions. In contrast, less than 3% expect business activity to contract over the same period.

## 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

The intellectual property rights to the HSBC Brazil Services PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.