

HSBC Brazil Services PMI (with Composite PMI data)

All-sector output expanded markedly in February, leading to faster employment growth

Summary

Registering its highest reading for twenty-one months in February (55.8), the headline seasonally adjusted Business Activity Index pointed to a marked increase in Brazilian service sector output. Meanwhile, manufacturing production rose markedly, albeit more slowly than in January. Reflecting the sector data, the HSBC Brazil Composite Output Index dipped to a four-month low, but still showed sharp growth.

Supporting the latest increase in activity at Brazilian service providers was another expansion of new business. Growth of new work was solid, but milder than over the preceding three months. Panellists cited a better economic climate as the key factor underlying the gains. New orders taken by manufacturers rose sharply. The Composite New Orders Index signalled a marked overall rate of expansion.

Also contributing to services activity growth, albeit to a lesser extent, was another drop in unfinished business. Service providers indicated that efforts were made to clear backlogs in February. However, the rate of depletion was only slight, as has been the case for the past three months. In contrast, work-in-hand at manufacturing plants accumulated at a robust pace. Consequently, the Composite Outstanding Business Index pointed to a moderate rise in total backlogs.

With the economic and financial environment improving, Brazilian service firms hired additional workers. Staffing expanded for the seventh straight month and at the fastest rate since August 2008. However, the increase remained slightly weaker than the series' pre-crisis trend. Data showed a marked rate of job creation in the manufacturing industry. Overall, employment grew strongly, as shown by a rise in the Composite Employment Index.

Service companies noted another increase in their average cost burdens during the latest survey period. The index tracking trends in input prices climbed to its highest level for ten months, signalling a marked rate of inflation. Anecdotal evidence suggested that greater fuel and raw material costs (particularly those for tyres and food-related items), as well as higher taxes and wages all contributed to inflationary pressure. Input costs also rose faster in the manufacturing economy. The Composite Input Prices Index indicated the strongest rate of all-sector inflation for fourteen months.

Favourable demand conditions enabled service providers to raise their rates for the third month running in February. Moreover, the solid pace of inflation was the most marked for a year-and-a-half. Tariffs increased more modestly in manufacturing. The Composite Output Prices Index signalled a moderate rise in total charges.

Comment

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

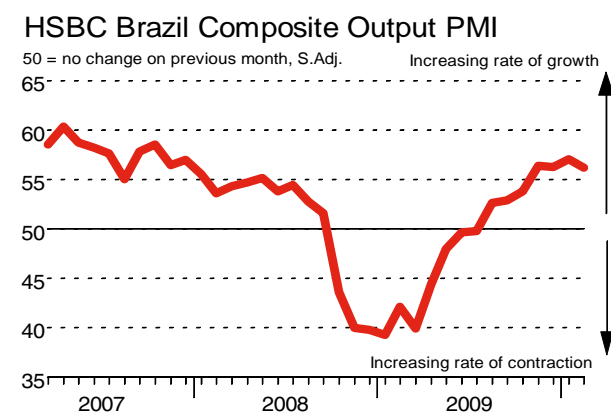
"After two months of robust growth, Brazilian service sector activity expanded at an accelerated pace in February. The level of 55.8 registered by the headline Business Activity Index (from 54.2 in January) is the highest since May 2008. The New business Index showed a solid expansion – although slightly slower than in the previous month – while the Employment Index registered its best reading since August 2008. It's also worth noticing there has been a more marked rise in the Prices Charged Index. This may be an important indication of the persistence of services inflation in coming months, adding to the current inflationary concerns of the monetary policy committee."

"Taking manufacturing and services together, February HSBC Brazil Composite PMI data showed weaker results for both output and new orders. Despite this, the Employment Index, as well as the Input and Output Prices Indices continued to rise, suggesting stronger labour market and price pressures – both for the final consumer and along the production chain."

Key points

- Composite output and new business both grew at weaker – albeit still strong – rates.
- All-sector job creation picked up to strong pace.
- Total input and output prices both rose at accelerated 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.

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