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HSBC Brazil Services PMI

Business activity and employment both grew at accelerated rates in February.

Key findings:

- Output rose markedly, but new business growth eased.
- Job creation picked up to robust pace.
- Input and output price inflation both accelerated.

Business conditions in Brazil's services economy continued to strengthen during the second month of 2010. Gains in new work led to faster expansions of activity and employment, while firms' pricing power increased. Consequently, the outlook for the sector over the coming twelve months improved. However, evidence remained of growing input cost pressures.

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. The index has remained above the no-change threshold of 50.0 since August last year, with the latest rise bringing it broadly in line with its pre-downturn trend.

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. All six sub-sectors covered by the survey registered higher levels of new business since January, with growth most pronounced in Hotels & Restaurants. Panellists cited a better economic climate as the key factor underlying the gains.

Also contributing to overall 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.

With the economic and financial environment improving,

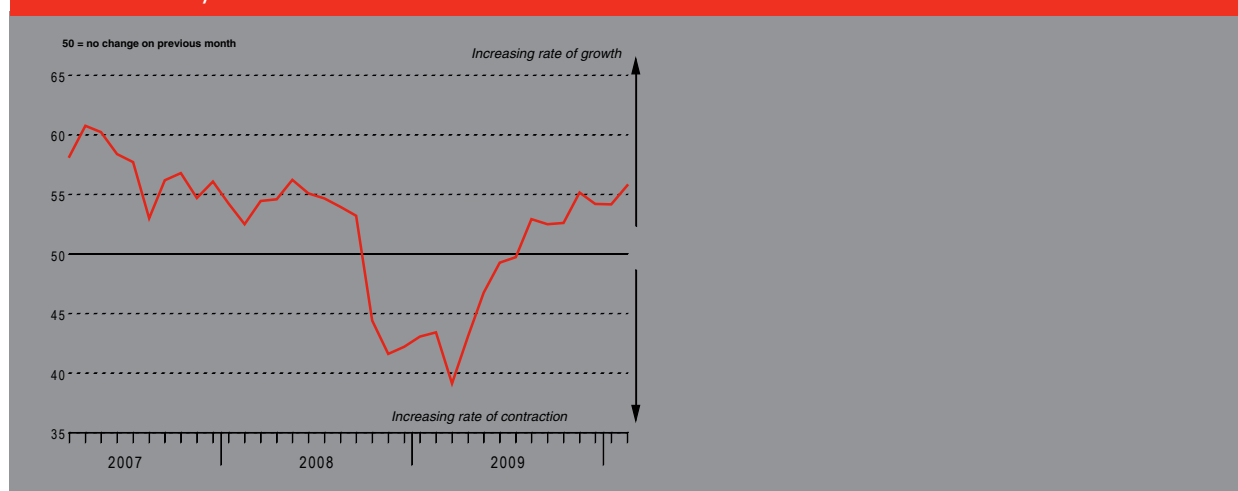
Brazilian service firms hired additional workers during February. Sector data revealed that all six services areas posted higher employment. Overall, staffing expanded for the seventh straight month and at the fastest rate since August 2008. However, the increase remained slightly weaker than the series' pre-crisis trend.

Service sector activity in Brazil is set to rise over the next year. Almost two-thirds of respondents anticipate higher output in twelve months' time, commenting on more stable economic and financial conditions, strengthening demand for services, new contractual agreements and new product development. Data showed that confidence was at its most elevated since last November.

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.

Favourable demand conditions enabled service providers in Brazil to raise their charges for the third month running in February. Moreover, the solid rate of inflation was the most marked for a year-and-a-half. Hotels & Restaurants recorded the fastest rise in tariffs of all the six monitored sub-sectors.

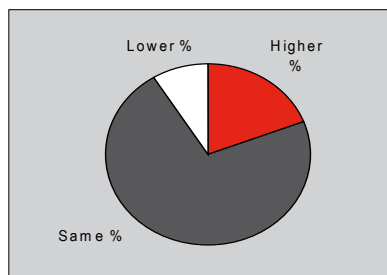
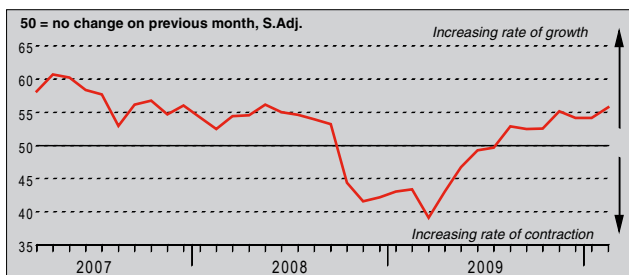
Business Activity Index



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

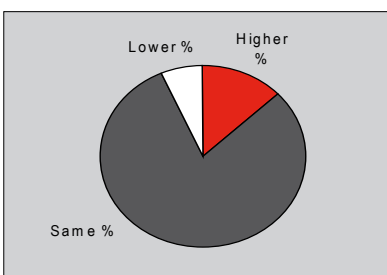
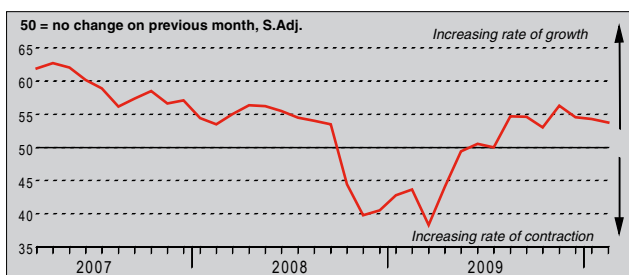
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector output grew at an accelerated pace during February, reflecting both gains in new business and efforts to clear backlogs. The marked expansion was the most pronounced since May 2008, as just under one-fifth of companies stepped up their activity levels. Output has risen continually for the past seven survey periods, following a ten-month sequence of contraction. Sector data showed that growth was broad-based across all monitored services areas.

New Business Index

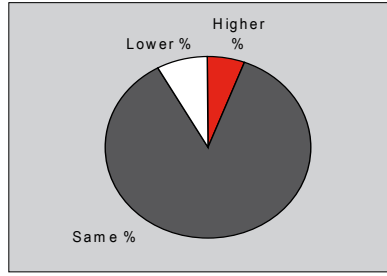
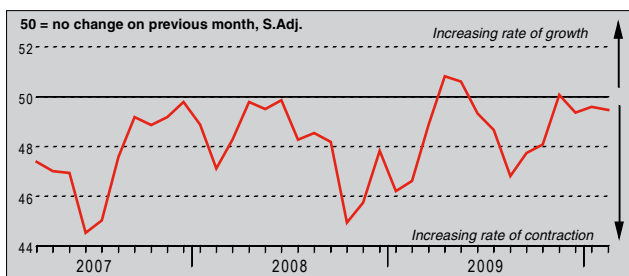
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



After accounting for seasonal variations, the New Business Index registered its lowest reading for four months in February. Nevertheless, the index level was consistent with a solid rise in incoming new work to Brazil's services economy. Respondents cited better economic conditions as the key factor underpinning sales growth. Of the six monitored sub-sectors, Hotels & Restaurants continued to perform particularly well over the month.

Outstanding Business Index

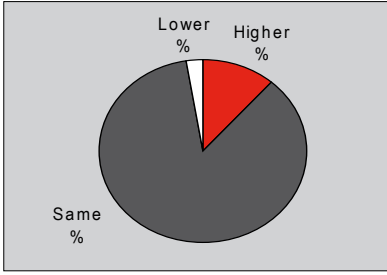
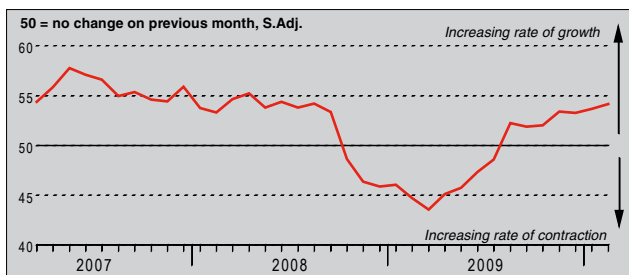
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Unfinished work at Brazilian service providers continued to fall at a marginal pace in February, as companies made efforts to catch up on backlogs. Highlighting this, the seasonally adjusted Outstanding Business Index was largely unchanged for the third month running. Three of the six sub-sectors covered by the survey registered lower backlogs since January. Only Financial Intermediation and Post & Telecommunication posted an increase, while work-in-hand was unchanged in Hotels & Restaurants.

Employment Index

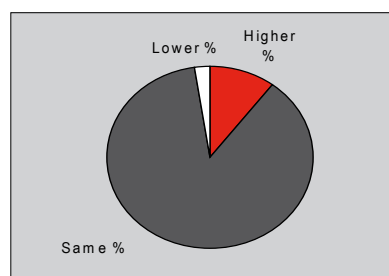
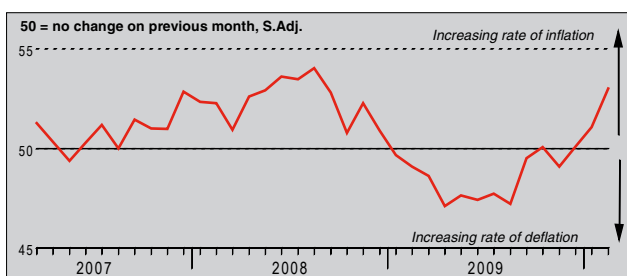
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Brazilian service providers hired staff at a robust pace during the second month of 2010. The increase was the seventh in succession and the fastest for a year-and-a-half. Anecdotal evidence suggested that personnel were taken on in response to greater workloads and improved economic conditions. Job creation was recorded across all services areas covered, with Hotels & Restaurants registering the most pronounced growth.

Prices Charged Index

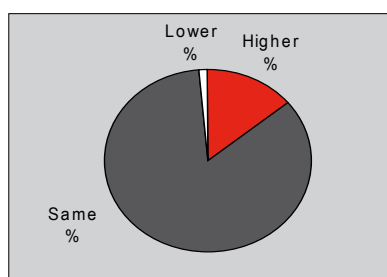
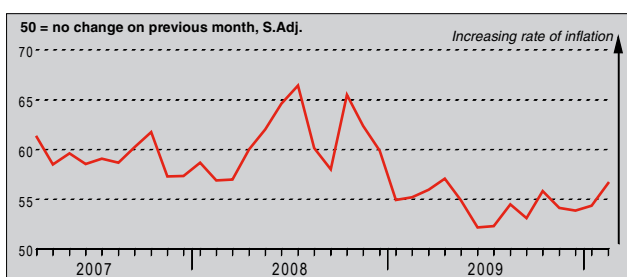
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices charged by Brazilian service firms rose for the third month running in February. While the rate of inflation was only moderate, it was nonetheless the most pronounced for a year-and-a-half. More than one-tenth of the survey panel raised tariffs on the month, citing higher taxes and input costs. Service charges increased across all surveyed sub-sectors, although by far the fastest inflation was posted by Hotels & Restaurants.

Input Prices Index

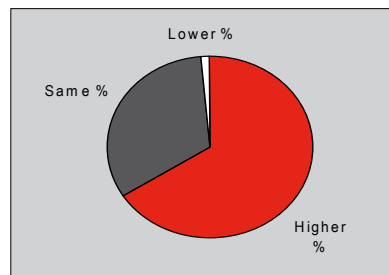
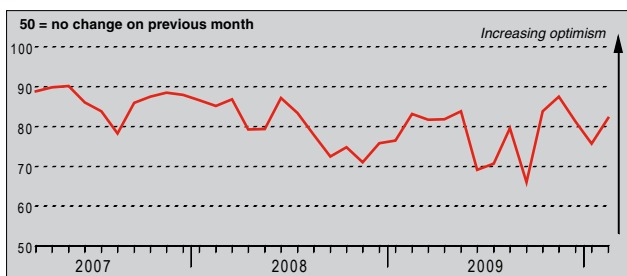
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The seasonally adjusted Input Prices Index climbed for the second month running in February, hitting a ten-month high. The latest reading pointed to a marked rate of inflation across Brazil's service sector. Increased fuel and raw material prices, taxes and wages all contributed to the latest round of inflation, according to panel members. Higher costs of tyres and food-related goods were particularly mentioned by companies. However, inflation remained muted compared to the historical trend.

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 outlook for Brazil's service sector improved in February. Data signalled that positive sentiment amongst service providers regarding activity over the next year was the most elevated for three months and above the series' long-term trend. Survey participants stated that economic and financial stability, rising demand, new contractual agreements and new product development all supported optimism. Companies in the Hotels & Restaurants sub-sector were the most confident about the future.

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.

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