

HSBC Brazil Services PMI (with Composite PMI data)

Total output growth eased in March, but remained solid. Input price pressures moderated

Summary

The recovery in Brazilian service sector activity continued at a marked pace at the end of Q1. Although down slightly from February's twenty-one month high of 55.8, at 55.2 the headline seasonally adjusted Business Activity Index remained comfortably above the series trend (52.3). As services activity growth slowed, manufacturing production increased at a marginally accelerated pace. The net effect of these movements was a slight drop in the HSBC Brazil Composite Output Index to a five-month low of 55.8.

Incoming new business to Brazil's service sector rose at an accelerated pace in March, supported by improved economic conditions. With more than one-fifth of respondents noting an increase since February, the overall expansion was the most marked since last November. Meanwhile, manufacturers noted a slightly slower rise in new orders. The Composite New Orders Index pointed to a marked and marginally faster expansion of total new work on the month.

Latest data suggested that Brazilian service providers were coping with rising workloads. Unfinished business continued to fall at a weak rate, as has been the case since December last year. Anecdotal evidence suggested that backlog clearance resulted from a degree of spare capacity and efforts to clear existing contracts. In contrast, outstanding business in the manufacturing industry grew solidly. Consequently, the Composite Outstanding Business Index pointed to a slight overall rate of accumulation.

Employment at service companies increased for the eighth month running. Growth was robust and little-changed from that recorded in February. Firms commented on greater business requirements. Job creation was moderately faster in manufacturing than in services. Overall, staffing numbers rose at a weaker rate than during the first two months of the year, as shown by a fall in the Composite Employment Index.

Service providers noted slower input price inflation in March. Nevertheless, input costs continued to rise at a marked pace, with respondents citing greater fuel and raw material prices. In the manufacturing industry, purchasing costs increased at a considerable and accelerated pace. The Composite Input Prices Index signalled a slowdown in total input cost inflation.

To compensate for higher cost burdens, Brazilian service companies took advantage of better demand conditions and raised their charges in March. That said, output price inflation was moderate and slower than February's one-and-a-half year peak. Charges for Brazilian manufactures rose at a similar pace. The Composite Output Prices Index was little-changed from February's level as a result.

Comment

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

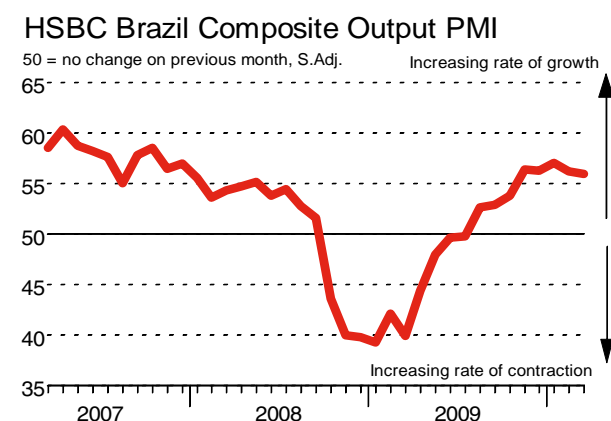
"The service sector posted another strong expansion of activity in March (55.2), even if the pace of growth was slightly slower than in February (55.8). Reflecting this, the average activity index reading of 55.1 for Q1 2010 was very favourable. Prospects for coming months remain good, with new business growth accelerating since February and employment continuing to expand vigorously. On a more negative note, companies continued to have difficulties keeping the pace of charge inflation in line with rising input prices."

"The HSBC Brazil Composite Output PMI fell slightly vis-à-vis February's reading, but remained at a very encouraging level of 55.8. A quarterly average of the composite output index shows that, overall, the Brazilian economy performed more strongly in Q1 2010 (56.4) than in Q4 2009 (55.5)."

Key points

- Total output and employment growth both eased, but remained robust.
- Composite new business increased at slightly faster pace.
- Overall, input prices rose at weaker rate, while charge inflation remained moderate.

Historical Overview



For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil

Telephone +55-11-3371-8184

Email andre.a.loes@hsbc.com.br

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil

Telephone +55-11-3847-5785

Email aseidl@hsbc.com.br

Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email gemma.wallace@markit.com

Caroline Lumley, Markit Press Office

Telephone +44-20-7260-2047

Email caroline.lumley@markit.com

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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