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HSBC Brazil Services PMI

New business growth accelerated in March, while price pressures eased.

Key findings:

- Activity and employment both expanded at robust rates.
- Service providers continued to manage rising workloads as backlogs fell.
- Input and output price inflation both moderated since February.

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). A quarterly average of the headline index showed that Q1 2010 was the most successful quarter for growth of Brazilian services activity since Q2 2008. Of the six services sub-sectors covered by the survey, Post & Telecommunications, Renting & Business Activities and 'Other' Services posted the fastest expansions in output during the month.

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. Panellists have now reported gains in new work for ten straight survey periods. Data showed that growth was broad-based across all monitored services areas.

Latest data suggested that Brazilian service providers were coping with rising workloads in March. Volumes of 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. Where work-in-hand accumulated, this was frequently linked to greater volumes of

new business.

Employment at Brazilian service companies increased for the eighth month running in March. Growth was robust and little-changed from that recorded in February. All six services sub-sectors posted higher staffing numbers during the latest survey period, with firms commenting on greater business requirements.

As the business and economic environment improved in March, service companies were highly optimistic regarding activity levels in the next twelve months. Government investments and incentives, elections, more tourists, and World Cup-related work all contributed to positive sentiment, according to panel members. However, optimism was less marked than in February.

Brazilian service providers noted a slowdown in input price inflation during the latest survey period. Nevertheless, input costs continued to rise at a marked pace on the month, with respondents citing greater fuel and raw material prices (particularly for foodstuffs).

To compensate for higher cost burdens, Brazilian service companies took advantage of better demand conditions and raised their charges in March. Tariffs have now increased in five of the past six months. That said, output price inflation was moderate and slower than February's one-and-a-half year peak.

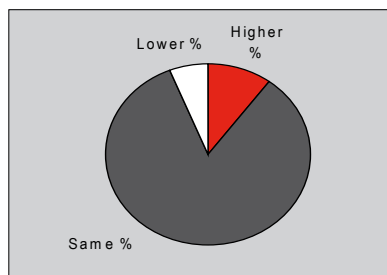
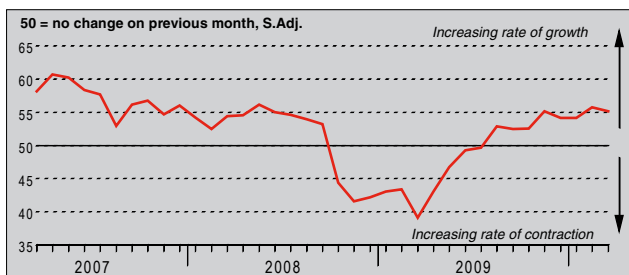
Business Activity Index



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

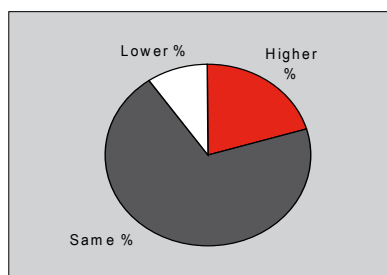
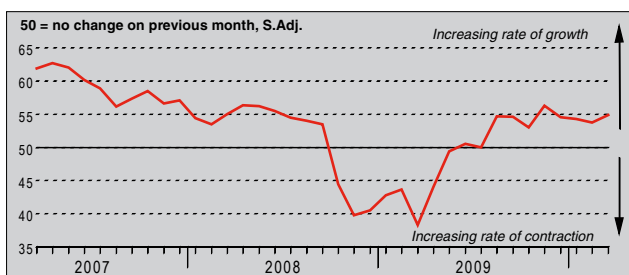
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector output rose again in March. Although slightly weaker than February's twenty-one month high, the pace of growth remained marked and above the series trend. More than one-tenth of the survey panel upped activity levels over the month, citing faster inflows of new business. Sector data revealed that Post & Telecommunications, Renting & Business Activities and 'Other' Services registered the fastest expansions in output.

New Business Index

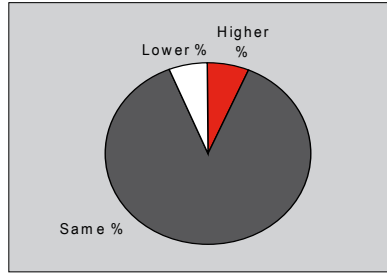
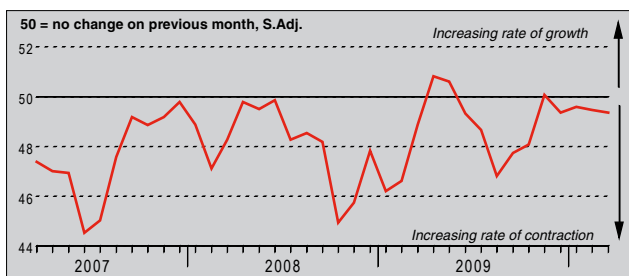
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New work at Brazilian service firms expanded at a robust and accelerated pace during March, with more than one-fifth of companies recording growth. Increased demand due to better economic conditions was overwhelmingly cited as the key reason for gains in new business. Data has now shown rising demand for services for ten straight months. All six Brazilian service sectors covered by the survey posted higher new business on the month.

Outstanding Business Index

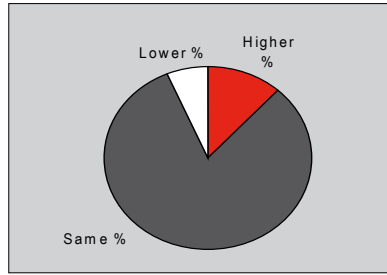
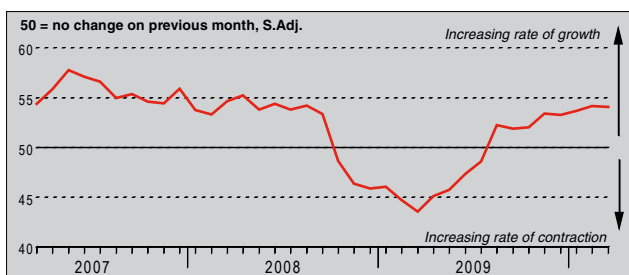
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Volumes of unfinished business across Brazil's services economy continued to fall at a weak pace during the latest survey period. The seasonally adjusted Outstanding Business Index registered only slightly below the no-change mark of 50.0 in March, as has been the case since last December. Where existing contracts were cleared on the month, panellists attributed this to available capacity and efforts to reduce work-in-hand. Meanwhile, backlog accumulation was frequently linked to more new work.

Employment Index

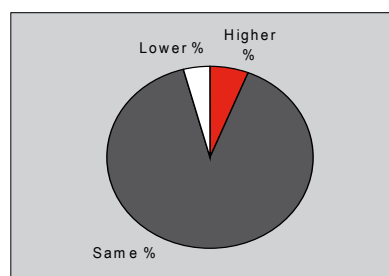
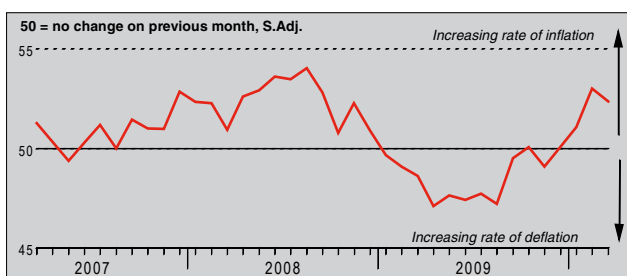
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment at Brazilian service providers continued to grow at a robust pace in March, with around 12% of respondents hiring additional staff on the month. Data signalled that job creation was broad based across all six monitored sub-sectors. Personnel numbers were increased in line with business requirements, according to anecdotal evidence. However, the pace of expansion remained weaker than the series' pre-downturn average.

Prices Charged Index

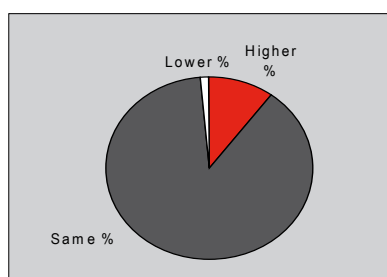
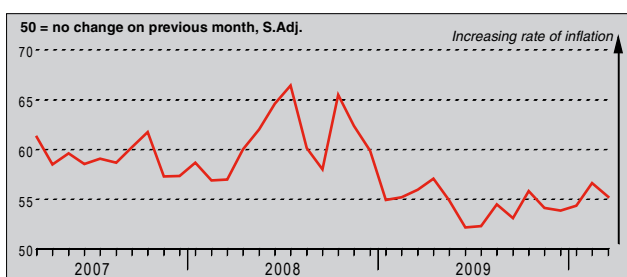
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index registered above the no-change mark of 50.0 for the fourth month running in March, signalling another rise in tariffs at Brazilian service companies. Panel members stated that output price inflation predominantly reflected improved demand conditions and greater cost burdens. That said, the latest figure was down from February's one-and-a-half year high and indicated a moderate rate of increase.

Input Prices Index

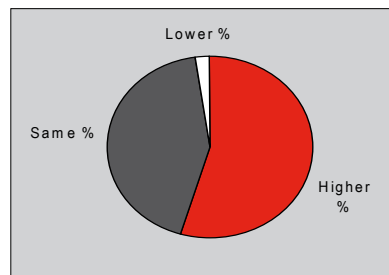
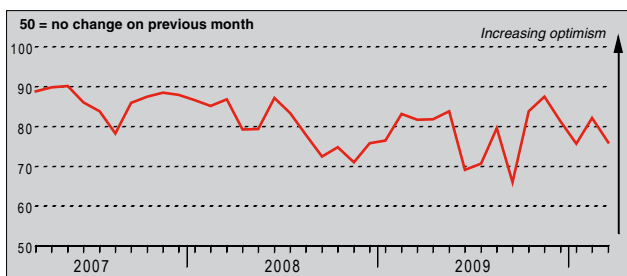
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



More than one-tenth of respondents recorded an increase in their average input costs at the end of the first quarter. This contrasted with just 1% of firms that noted a fall. Hikes in fuel and raw material prices (especially for foodstuffs) underpinned the latest rise, according to panellists. Although still marked, input price inflation moderated from February's ten-month peak. Moreover, the increase was weaker than the long-term series 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?



Positive sentiment amongst Brazilian service companies regarding activity over the next year dipped in March. After rising to a three-month peak in February, the Business Expectations Index fell to a level below the series' long-run average. Even so, with the majority of firms (around 55%) anticipating an expansion in output in twelve months' time, confidence remained elevated overall. Respondents indicated that economic growth, government investments and incentives, elections, more tourists, and World Cup-related work all supported optimism.

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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