

HSBC Brazil Services PMI (with Composite PMI data)

Total activity growth eased to moderate pace in April. All-sector input price inflation accelerated but remained below trend

Summary

The headline seasonally adjusted Business Activity Index posted 52.2 in April, down further from February's twenty-one month high of 55.8. The latest reading pointed to a moderate rise in Brazilian service sector output. Respondents indicated that activity levels were raised to accommodate further gains in new business, which grew solidly since March. Around 16% of monitored companies registered a higher intake of new work, linking this to a better economic environment, successful attempts to secure new customers and business expansions into new markets. However, new work increased at the slowest rate for six months. Both output and new business growth also slowed in the manufacturing industry. Consequently, the HSBC Brazil Composite Output and New Orders Indices dipped to seven- and eight-month lows respectively (the former posted 52.9).

Despite further growth of new business, Brazilian service providers continued to clear backlogs of work during the latest survey period. Outstanding business fell at a modest but accelerated pace, bringing the current sequence of contraction to five months. Many companies commented on efforts to prevent a build-up of work-in-hand. In contrast, unfinished business in the manufacturing sector rose moderately. The Composite Outstanding Business Index signalled a fractional reduction in overall volumes of backlogs.

Brazilian service companies hired personnel at a solid pace in April, in order to meet greater business requirements and to control backlogs. It was the ninth rise in succession, but the weakest since October last year. Meanwhile, manufacturers took on staff at a robust pace. The Composite Employment Index pointed to a solid rate of growth overall. However, the latest reading was the lowest for six months.

Panel members recorded another solid rise in their average cost burdens at the start of Q2. Input price inflation was only fractionally weaker than in March, with greater wage and raw material costs underpinning the increase. However, in relation to the series' long-run trend, the rise in input prices remained subdued. In contrast, manufacturers reported a sharp and accelerated rise in their purchasing costs. Reflecting the sector data, the Composite Input Prices Index rose since March to signal a marked rate of inflation.

To protect profit margins from rising costs, Brazilian service providers upped their charges in April. However, the pace of increase was only modest and the mildest for three months. Manufacturers also raised their tariffs, but at a weaker rate. The Composite Output Prices Index indicated a modest rate of increase in total charges.

Comment

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

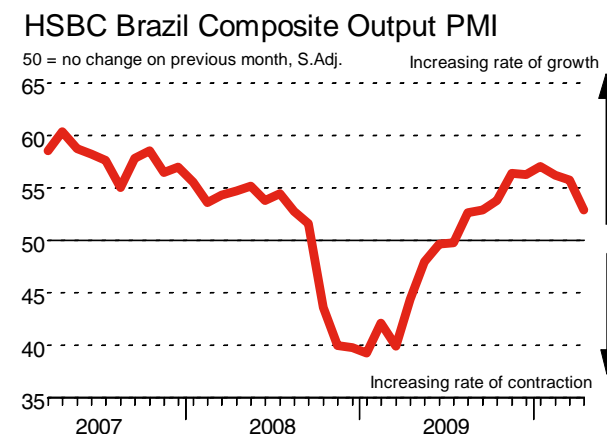
"The expansion of Brazil's service sector slowed down in April. At 52.2, the headline Business Activity Index shows moderate growth - a marked deceleration vis-à-vis the rate signalled in March (55.2). New business and employment growth also slowed down, albeit less sharply, but remained at levels that can still be considered solid. In contrast to the situation in the manufacturing sector, charges also increased at a slower rate than in the previous month, completing the picture of a slower-expanding sector."

"Reflecting weaker expansions in both services and manufacturing output, the HSBC Brazil Composite Output PMI pointed to a slowdown in all-sector activity growth - the index fell to 52.9 from 55.8 in March. All in, the first quarter of the year apparently marked the peak of economic activity growth in Brazil."

Key points

- All-sector output and new business growth both slowed in April.
- Overall job creation weakest since last October.
- Total input costs rose at marked and accelerated pace, reflecting trend in manufacturing.

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.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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