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HSBC Brazil Services PMI

Activity growth eased to moderate pace in April. Input price inflation still below trend.

Key findings:

- Activity, new business and employment all rose at weaker rates.
- Input price inflation remained relatively subdued.
- Business outlook remained elevated, although confidence was at seven-month low.

The pace of recovery across Brazil's services economy continued to cool at the start of the second quarter of 2010, with new business, output and employment all growing at weaker rates. Nevertheless, expansions in these three variables remained broadly on a par with, or above, their long-run averages. On the prices front, input costs continued to mount, albeit at a weaker rate than the series trend.

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. Sector data revealed new work rose fastest in Postage & Telecommunications.

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.

Brazilian service companies hired personnel at a solid pace in

April, in order to meet greater business requirements and to keep on top of backlogs. It was the ninth rise in succession, but the weakest since October last year. Data showed that job creation was most pronounced in Financial Intermediation and 'Other Services'.

Reflecting weaker growth of both total activity and new work, confidence amongst service providers regarding future output was relatively subdued in April. Only 45% of panel members anticipate growth over the coming year, the lowest proportion for seven months. Even so, total optimism remained strong overall, with less than 2% of respondents predicting a contraction in twelve months' time. Economic growth, new client acquisitions, business expansions and company re-investment were all given as leading reasons for positive sentiment.

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.

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. Data showed that tariffs fell in the Renting & Business Activities sub-sector. Financial Intermediation and Transport & Storage registered the fastest rates of charge inflation.

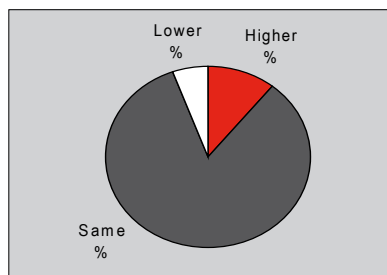
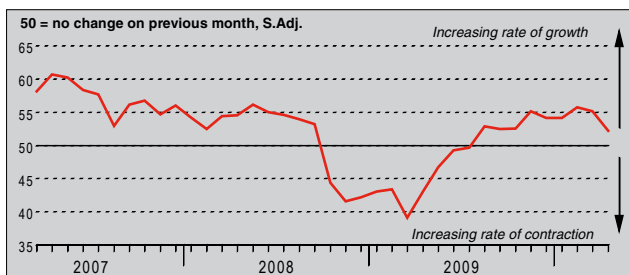
Business Activity Index



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

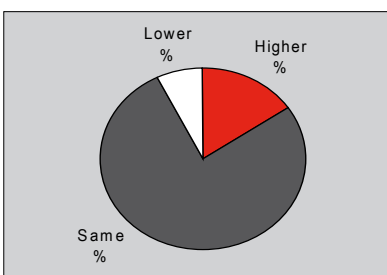
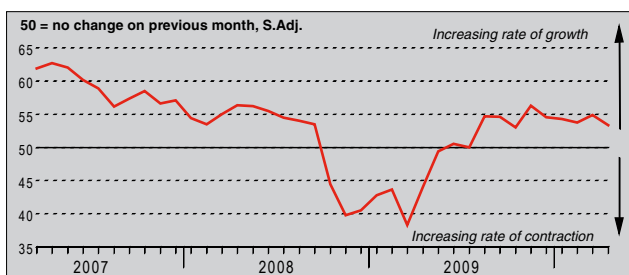
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector activity increased for the ninth month in succession during April, which panel members attributed to further gains in new business. Although the rate of expansion slowed further from February's twenty-one month peak, the moderate rise in output was broadly in line with the series' long-run average. By sub-sector, the most pronounced growth was recorded by Postage & Telecommunications and 'Other Services'.

New Business Index

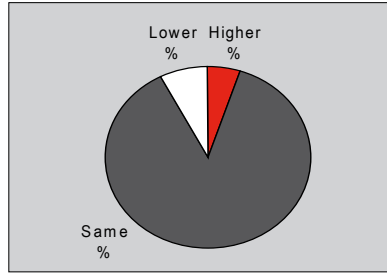
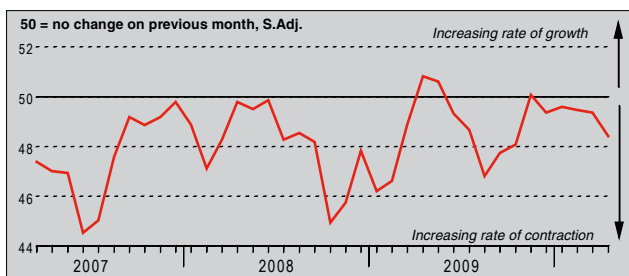
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Growth of incoming new work to Brazil's services economy was solid at the start of the second quarter of 2010, albeit less marked than over the previous five months. Approximately 16% of panel members received greater volumes of new business in April, compared with just 7% that experienced a drop in demand for their services. Favourable demand conditions, successful attempts to secure new clients and company expansions into new markets were the main reasons for growth, according to respondents.

Outstanding Business Index

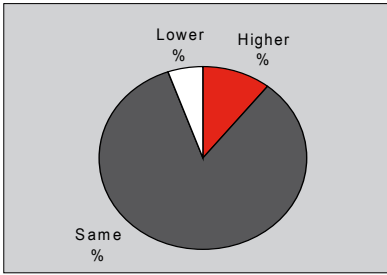
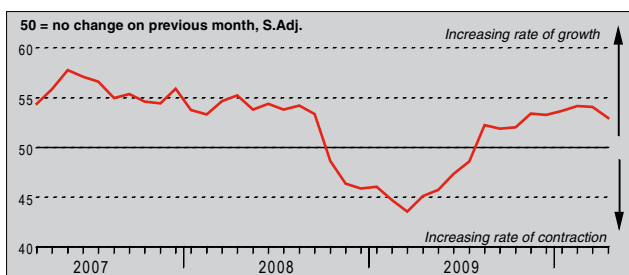
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index sank to a six-month low in April, signalling a modest decline in work-in-hand at Brazilian service providers. Reports suggested that further backlog clearance resulted from efforts to control workloads. Unfinished business in the sector has fallen during every survey period since December last year. Only two of the six sub-sectors monitored by the survey, Financial Intermediation and Transport & Storage, registered a build up of backlogs over the month.

Employment Index

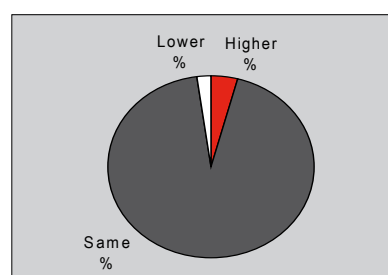
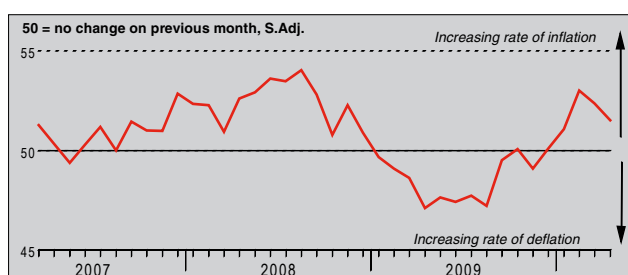
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service firms in Brazil hired workers at a solid pace in April as business requirements mounted. However, the pace of growth moderated for the second straight month to the weakest since October 2009. Even so, the rate of expansion remained faster than both the twelve-month and long-run averages for the series. Data showed that Financial Intermediation and 'Other Services' posted the most pronounced increases in personnel numbers of the six services areas covered.

Prices Charged Index

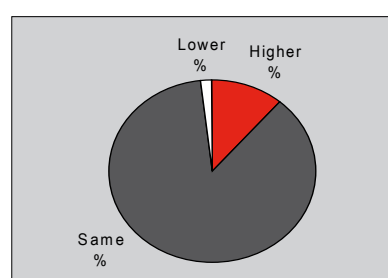
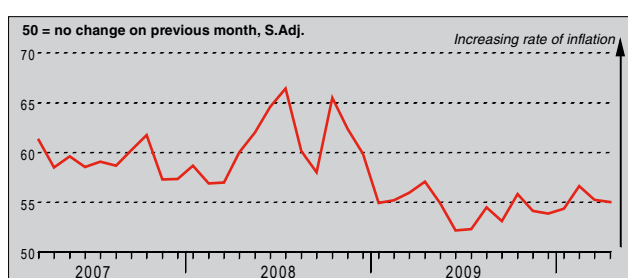
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Primarily in response to greater input costs, Brazilian service firms raised their charges for the fifth consecutive month during April. However, output price inflation was moderate and weaker than in the previous two survey periods. By far the largest proportion of panel members (about 94%) maintained their rates since March. Even so, the latest increase was still sharper than the long-run average for the series. Financial Intermediation and Transport & Storage recorded the fastest increases in tariffs, while Renting & Business Activities posted a fractional decline.

Input Prices Index

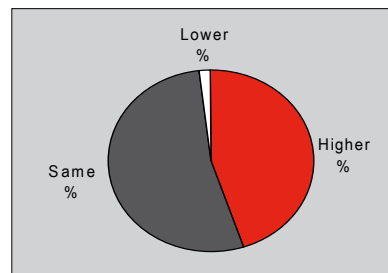
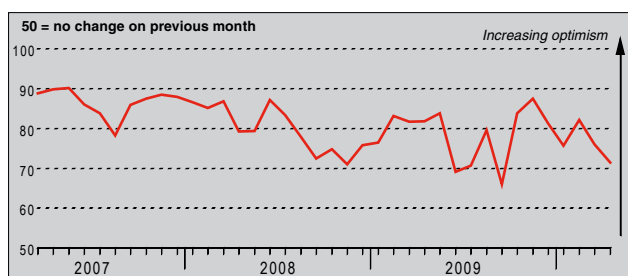
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation was robust in April, and little-changed since March. Service companies in Brazil noted that rising wage and raw material costs had underpinned the latest increase. Respondents have reported inflation during every month since data collection began in March 2007, although the trend has been relatively subdued since 2009. By sector, Renting & Business Activities, Hotels & Restaurants and 'Other Services' registered the most pronounced rise in input costs.

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?



Economic growth, new client acquisitions, business expansions and company re-investment were all key reasons for optimism amongst Brazilian service providers in April. Positive sentiment was strong, with around 45% of panellists anticipating a rise in output in the next year, against less than 2% that expect activity levels to fall. However, the Business Expectations Index dipped to a seven-month low that was also weaker than the long-term trend, signalling that confidence was relatively subdued.

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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