

HSBC Brazil Services PMI (with Composite PMI data)

All-sector output growth slowed again in May. Input price inflation moderated, but remained marked.

Summary

The headline seasonally adjusted Business Activity Index rose fractionally to 52.3 in May, indicating a modest increase in Brazilian service sector output. Anecdotal evidence indicated that the expansion reflected further gains in new business. Growth of manufacturing production was only slightly faster than that of services activity, having eased since April. Overall, output rose at a modest pace, as indicated by a HSBC Brazil Composite Output Index reading of 52.5 in May.

Service providers noted another rise in new work during May. Growth was solid overall but broadly similar to the six-month low recorded in April. Panellists highlighted a favourable economic environment and improving demand as the key factors behind the latest expansion of new work. Meanwhile, incoming new orders to the manufacturing sector grew only modestly. The Composite New Orders Index sank to a ten-month low, but still indicated a solid rise in total new work.

Brazilian service firms continued adding to their workforces in May, bringing the current run of growth to ten months. Data pointed to a solid rate of expansion that was little-changed from April. Better operating conditions and company expansions were the main reasons for the increase in staffing. Manufacturing employment grew at a more modest pace. Consequently, the Composite Employment Index pointed to only a moderate rate of expansion overall.

Despite further growth of new business, service firms noted a slightly faster decrease in outstanding work. This suggested that companies were coping well with current commitments. However, the rate of depletion remained only modest overall. In contrast, manufacturers recorded a moderate build up of backlogs. The Composite Outstanding Business Index signalled a slight fall in total volumes of unfinished work.

Latest data signalled a slight moderation in the rate of input price inflation faced by Brazilian service companies. The increase was the mildest since January and below the series trend, but nevertheless remained solid. Respondents commented on higher wages, taxes and raw material prices. Manufacturers noted another sharp rise in their average input costs. However, inflation eased from April's one-and-a-half year high. Reflecting the sector data, the Composite Input Prices Index pointed to a slightly weaker, but still marked, overall rate of inflation.

Partly in order to pass on input cost increases to customers, but also to benefit from good demand conditions, Brazilian service providers raised their charges during May. However, output price inflation was modest and little-changed from April. Manufacturers also upped their tariffs at a modest pace, which was subsequently reflected by the Composite Output Prices Index.

Comment

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

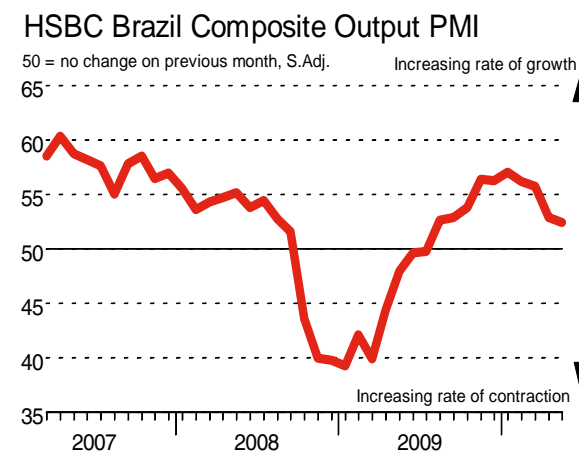
"Practically unmoved from last month (52.3, compared to 52.2 in April), the headline Business Activity Index of the HSBC Services PMI suggests the stabilization of services output growth at a more moderate pace. This indication is reinforced by similar behaviour in the other indices, which all changed only slightly from the previous month's readings. Yet, both the new business and employment indexes showed marginally faster expansions than in April.

"Reflecting mainly the more pronounced decelerations in growth of the manufacturing variables, the different components of the HSBC Brazil Composite PMI showed slight reductions vis-à-vis April's readings. The composite output index stands now at 52.5, reinforcing signs of some slowdown in the expansion of Brazil's whole economy in Q2 2010."

Key points

- Total activity rose modestly in May.
- All-sector growth of new work slowed further, but remained solid.
- Job creation weakest since October 2009.

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 around 350 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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