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HSBC Brazil Services PMI

Activity growth stabilised at modest pace in May. Input price pressures eased further but remained solid.

Key findings:

- Expansions in activity, new business and employment all little-changed from April.
- Charge inflation remained muted.
- Confidence regarding future activity levels dipped to eight-month low.

The headline seasonally adjusted Business Activity Index rose fractionally from 52.2 in April to 52.3 in May, indicating a modest increase in Brazilian service sector output. The broadly sideways movement in the index signalled that activity growth stabilised, following slowdowns in the previous two months. Anecdotal evidence indicated that the moderate rate of increase reflected further gains in new business. All six sub-sectors monitored by the survey recorded higher activity on the month, with Hotels & Restaurants and Postage & Telecommunication posting the most pronounced expansions.

Respondents noted another rise in new work in May. Growth was solid overall but only slightly faster than the six-month low recorded in April. Receipts of new business at Brazilian service providers have now increased continually for a year, following an eight-month long downturn. Panellists highlighted a favourable economic environment and improving demand as the key factors behind the latest expansion of new work.

Service providers 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, according to panel members. Personnel growth was fastest in the Renting & Business Activities and 'Other Services' sub-sectors.

Despite further growth of new business, service firms noted another decrease in outstanding work in May. Moreover, the

pace of reduction was slightly more marked than in April, suggesting that companies were coping well with their current commitments. However, the rate of depletion remained only modest overall. Renting & Business Activities posted the sharpest decline in backlogs, while unfinished work rose modestly in Postage & Telecommunications.

The outlook for activity levels in the next year remained strongly positive in May, with around 43% of monitored Brazilian service providers anticipating growth. However, this was down from about 45% in the previous month, indicating that optimism weakened slightly. Reports showed that expectations of economic growth supported confidence levels during the latest survey period.

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 long-term trend, but nevertheless remained solid. Respondents commented on higher wages, taxes and raw material prices. By sector, inflation was sharpest in Renting & Business Activities and Hotels & Restaurants.

Partly in order to pass on input cost increases to customers, but also to benefit from favourable demand conditions, Brazilian service providers raised their charges during May. However, output price inflation was modest and little-changed from April.

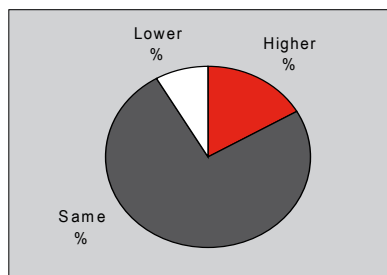
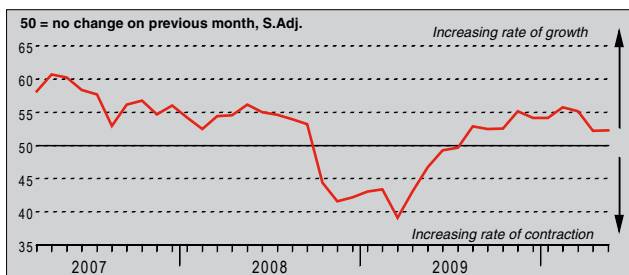
Business Activity Index



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

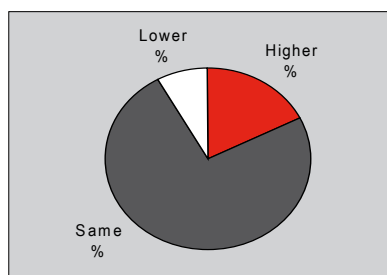
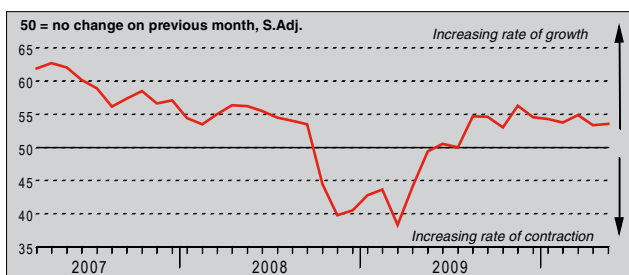
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index registered only fractionally above April's nine-month low in May, signalling another moderate increase in Brazilian service sector output. Panel members stated that activity levels were raised in line with new business growth. Sector data revealed that the expansion was broad-based across all six monitored service areas, although output increased only marginally in Transport & Storage.

New Business Index

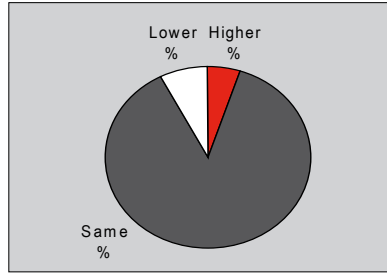
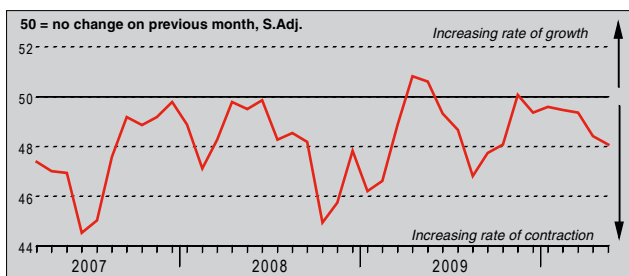
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new business rose solidly across the Brazilian service sector during May, with around 18% of respondents receiving more new work on the month. Anecdotal evidence indicated that improving demand and favourable economic conditions had supported sales levels. However, the increase was broadly similar to April's six-month low. By sector, Postage & Telecommunications and Hotels & Restaurants registered the most pronounced expansions in new business.

Outstanding Business Index

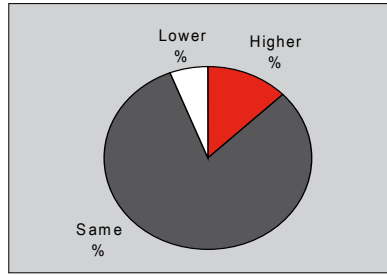
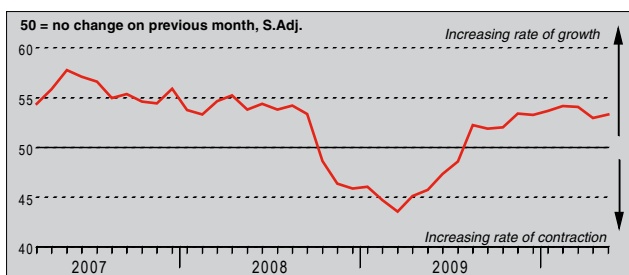
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Data for May suggested that workloads at Brazilian service providers remained manageable, despite further new business growth. Outstanding work was reduced for the eleventh time in a year, and at a slightly accelerated pace. Although only modest, the latest depletion was the fastest since October 2009. Backlog clearance was fastest in the Renting & Business Activities sub-sector, while Postage & Telecommunications recorded a slight accumulation of unfinished business.

Employment Index

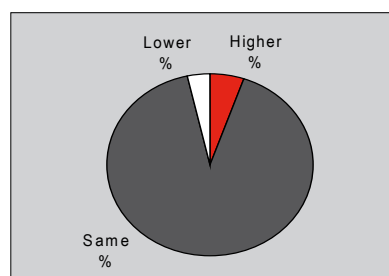
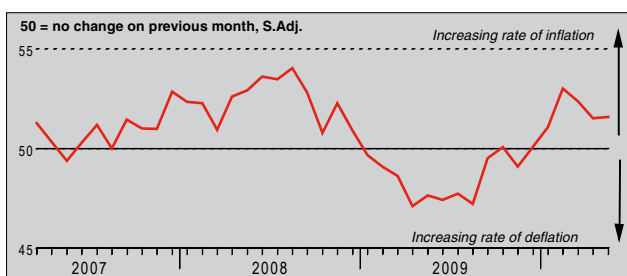
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Job creation in Brazil's services economy accelerated fractionally during May, although it remained weaker than that recorded in Q1. Around 13% of firms hired extra staff on the month, citing favourable economic conditions and company expansions as key reasons for the increase. Renting & Business Activities and 'Other Services' recorded the largest gains in employment. Meanwhile, workforce growth was flat in the Postage & Telecommunications sector.

Prices Charged Index

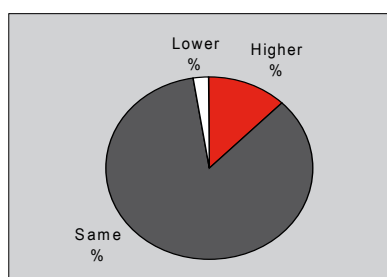
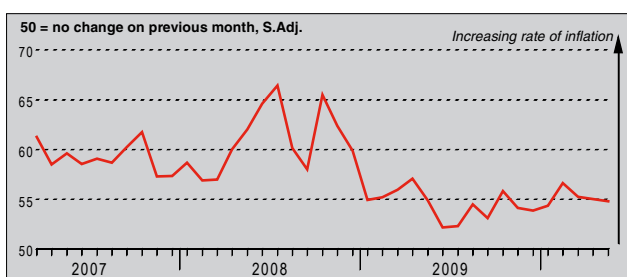
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Service providers in Brazil raised their charges in May at a modest pace. The rate of increase was little-different to that recorded in April, as indicated by a sideways movement of the seasonally adjusted Prices Charged Index. Survey participants stated that tariffs were lifted in response to higher input costs, and also to take advantage of favourable demand conditions. Output prices have risen during every month since December last year.

Input Prices Index

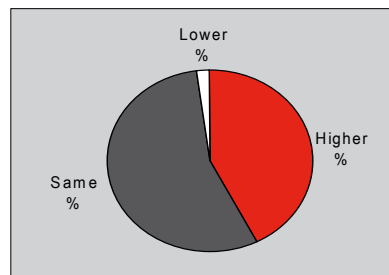
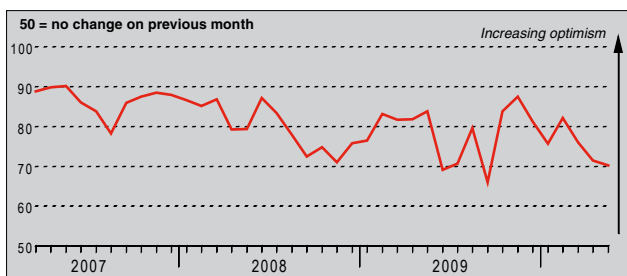
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



A combination of higher salaries, taxes and raw material prices all contributed to input cost inflation in May. Although the weakest since January, the increase was robust with around 13% of monitored Brazilian service firms reporting greater input costs. In contrast, less than 3% of respondents recorded a decline. All six sub-sectors registered growth in their average cost burdens on the month, with Renting & Business Activities and Hotels & Restaurants recording the most pronounced rises.

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?



The Business Expectations Index sank to an eight-month low in May, signalling that confidence about future activity levels amongst Brazilian service providers weakened further on the month. Nevertheless, with 43% of the survey panel expecting output to rise in the next year, positive sentiment remained strong overall. Reports indicated that anticipated economic growth was the main reason for optimism. Companies in the Renting & Business Activities and 'Other' Services sectors were the most confident, and those in the Hotels & Restaurants sector the least.

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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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