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HSBC Brazil Services PMI

Activity growth slowed to slight pace in June, but job creation remained solid.

Key findings:

- Expansion in new business moderated to weakest rate of current sequence.
- Input price inflation accelerated slightly, while charges rose at mildest rate for six months.
- Outlook for future activity levels improved.

Latest data from the HSBC Brazil Services PMI Report pointed to a slowdown in the sector's growth during June, with output, new business and employment all increasing at weaker rates on the month. Meanwhile, input price pressures rose at an accelerated pace. Nevertheless, positive sentiment about future activity levels improved noticeably, strengthening for the first time in four months.

The headline seasonally adjusted Business Activity Index fell to an eleven-month low of 50.9 in June, signalling only a slight expansion of output at Brazilian service providers since May. Reports indicated that weaker activity growth reflected a slower inflow of new business receipts. New work increased at a moderate pace during the latest survey period, which companies attributed to a combination of better economic conditions, successful promotional activities and the football World Cup. However, the latest rise was the mildest for almost a year. Sector data revealed that Renting & Business Activities recorded the fastest expansions in both activity and new work.

Despite further growth of new business, data suggested that there remained a degree of spare capacity in the service sector in June. Outstanding work fell for the seventh month in a row, albeit at the slowest rate for three months. The fastest backlog depletion was recorded by Hotels & Restaurants. Only Financial Intermediation and Transport & Storage posted an accumulation of work-in-hand.

Brazilian service firms continued adding to payrolls in June.

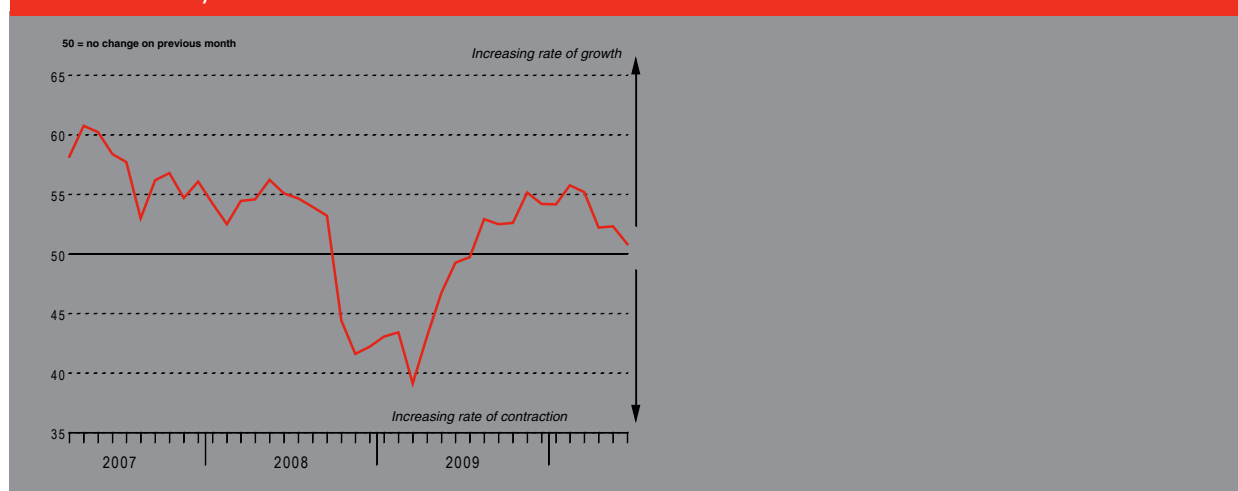
Employment in the sector rose solidly and for the eleventh straight month, which panellists linked to greater business requirements. However, the rate of expansion moderated fractionally since May. Financial Intermediation registered the most marked rise in employment, while Hotels & Restaurants was the only sub-sector to record a decline.

Input price inflation faced by Brazilian service companies accelerated slightly to a marked pace at the end of the second quarter. Anecdotal evidence indicated that higher fuel and raw material costs drove the latest increase. Although June's input price inflation was the sharpest since March, it remained weaker than the series long-run trend. All six of the sub-sectors monitored by the survey registered greater input costs on the month, with Renting & Business Activities posting the fastest rise.

To compensate for another increase in their cost burdens, service providers raised their charges in June. However, output price inflation eased to a modest rate that was the mildest for six months.

Activity levels are set to rise over the coming year, with 64% of the survey panel anticipating an expansion. This figure was up from 43% of companies in May. The main reason for optimism, according to respondents, is expected business opportunities arising from further economic growth. Financial Intermediation was the most confident about the outlook for activity, and Hotels & Restaurants the least.

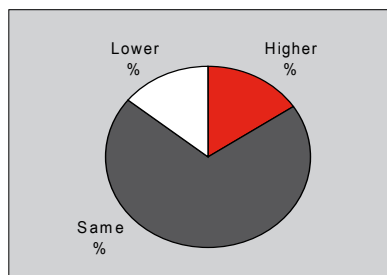
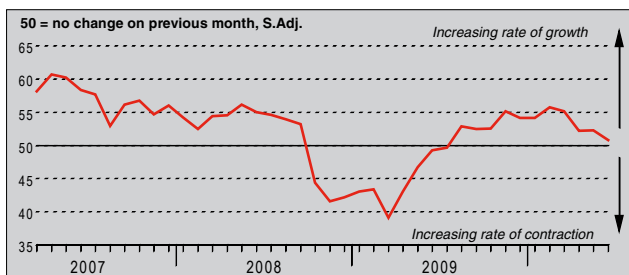
Business Activity Index



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

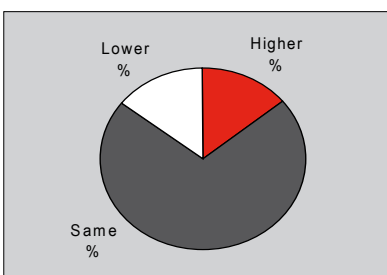
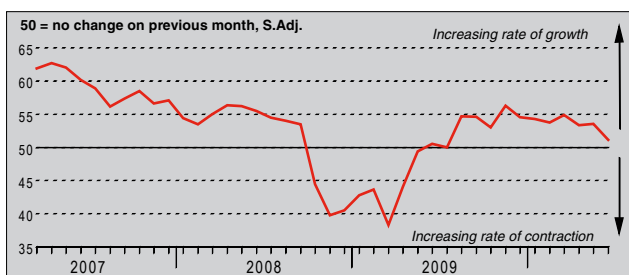
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



After accounting for seasonal variation, the Business Activity Index sank to an eleven-month low in June. The latest reading signalled only a slight expansion in Brazilian service sector output since May. Companies stated that activity levels were raised on the back of further new business growth. Only three of the six sub-sectors monitored by the survey increased output during the latest survey period. Of these, Renting & Business Activities posted the fastest rise.

New Business Index

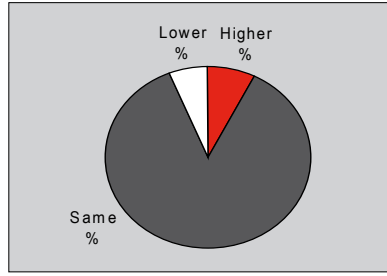
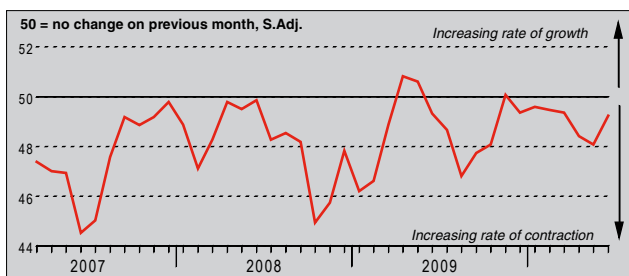
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Brazilian service providers noted another expansion in new business at the end of Q2, bringing the current run of growth to thirteen months. Anecdotal evidence suggested that favourable market conditions, promotions (including trade fairs) and the football World Cup had all supported market demand. However, the pace of increase moderated since May to the weakest for nearly a year. Data showed that new business growth was most marked in Renting & Business Activities.

Outstanding Business Index

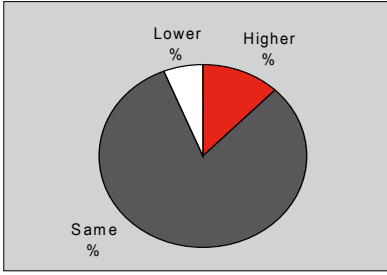
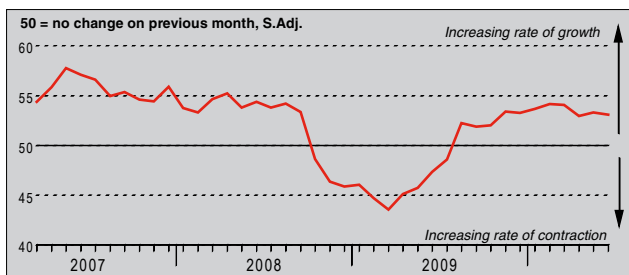
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



There remained a degree of spare capacity in Brazil's services economy in June, as indicated by a seventh successive monthly decline in volumes of unfinished business. However, the rate of reduction slowed to only a slight pace that was the weakest for three months. Hotels & Restaurants posted the fastest depletion of backlogs, followed by 'Other' Services. Only Financial Intermediation and Transport & Storage recorded a build-up of work-in-hand.

Employment Index

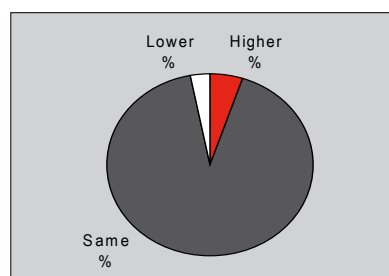
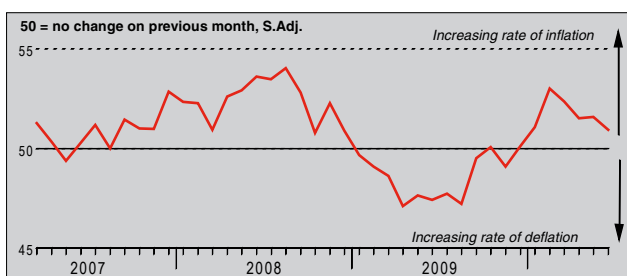
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index fell fractionally in June, remaining broadly similar to levels registered in April and May. Consequently, the index signalled another solid rise in staffing numbers at Brazilian service providers. Around 12% of the survey panel hired personnel on the month – double the proportion that cut workforces. Respondents commented on the need to meet greater business requirements. Job creation was sharpest in Financial Intermediation, while Hotels & Restaurants was the only sector to post lower employment.

Prices Charged Index

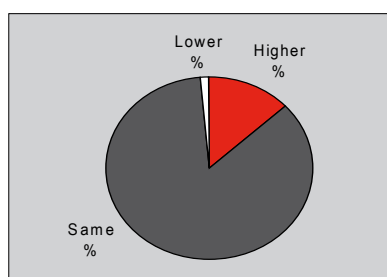
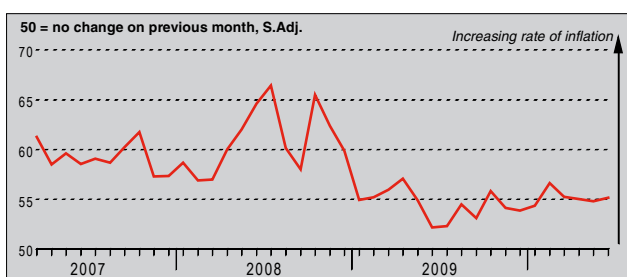
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Brazilian service firms rose at a modest pace during the latest survey period, albeit slightly more slowly than in May. Survey participants cited greater input costs as the principal factor behind tariff hikes. Data showed that output prices have increased during every month since December last year. Financial Intermediation companies raised charges to the greatest degree, while Hotels & Restaurants was the only sector to record falling tariffs.

Input Prices Index

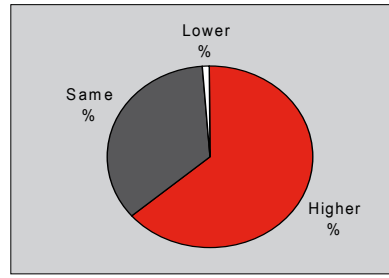
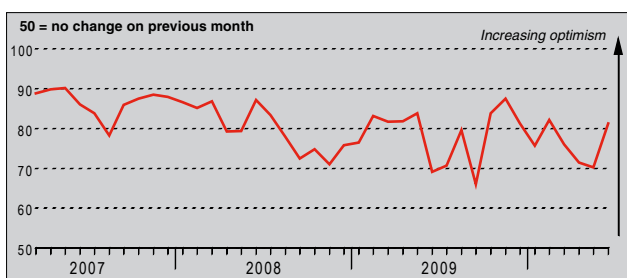
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation accelerated slightly during June, reaching a marked pace that was the sharpest since March. More than 13% of monitored companies saw an increase in their average cost burdens on the month, citing higher fuel and raw material prices. In contrast, only around 1% of firms noted lower input costs. Input price inflation was broad-based across all six sub-sectors covered by the survey, and most pronounced in Renting & Business Activities.

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?



Confidence about future activity levels amongst Brazilian service firms rose to its highest level for four months in June. Most respondents (approximately 64%, up from 43% in May) anticipate output growth in the coming year, linking this to expected business opportunities resulting from further economic growth. Companies in the Financial Intermediation sector were the most optimistic at the end of Q2, followed by those in 'Other Services'.

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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