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HSBC Brazil Services PMI™

Activity growth picked up in July, but remained subdued.

Key findings:

- Incoming new business rose at accelerated rate.
- Employment growth continued to slow.
- Price pressures eased slightly.

With activity and new business growth accelerating modestly during July, latest PMI™ data indicated that operating conditions across Brazil's services economy continued to improve at the start of Q3. However, expansions in both variables remained muted in comparison with their long-term trends. Meanwhile, the benefits of greater gains in new orders were not reflected in the labour market, as the rate of job creation slowed further.

The headline seasonally adjusted Business Activity Index registered 51.3 in July, up from June's eleven-month low of 50.9. The latest reading pointed to a moderate increase in Brazilian service sector activity, which panellists generally linked to a faster inflow of new work. Output in the sector has risen successively for a year. Four of the six sub-sectors monitored by the survey registered higher activity levels on the month.

The volume of new business placed with Brazilian service providers grew moderately in July. Respondents stated that stronger demand for services was supported by improving economic conditions and the football World Cup. Although faster than in June, the latest rise of new work was nevertheless weaker than the average for the current sequence of expansion. By sector, only Financial Intermediation posted a fall in new business.

A combination of greater workloads and customer delays led to a fractional build-up of unfinished business at Brazilian service

firms during the latest survey period. This was the first instance of backlog accumulation recorded for eight months.

Although Brazilian service providers continued adding to payrolls in July, marking one full year of employment growth, the rate of increase eased. This was in spite of a faster rise in new work. The latest round of job creation was only modest and the least marked since October 2009. Renting & Business Activities recorded the fastest increase in staffing, while both Hotels & Restaurants and Postage & Telecommunications posted slight contractions.

Service firms remained highly optimistic overall in July, with just over half the survey panel stating that they are confident of an increase in activity over the next year. In contrast, less than 2% were pessimistic. Anecdotal evidence suggested that positive sentiment stemmed from expectations of economic growth and improving market demand, alongside plans for company investments. Most confident in July were companies in the 'Other Services' sub-sector, followed by those in Renting & Business Activities.

Both input and output price inflation moderated during July – the latter to only a fractional pace. All six sub-sectors recorded higher input costs since June, while only four registered increased charges. Reports showed that the primary upward pressure on each of the price indicators stemmed from higher wage and raw material costs.

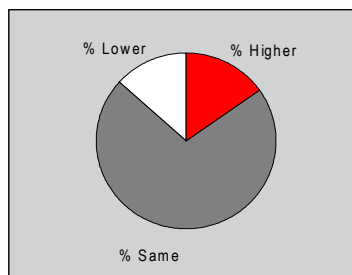
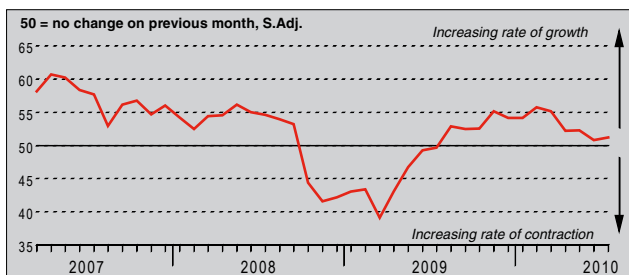
Business Activity Index



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

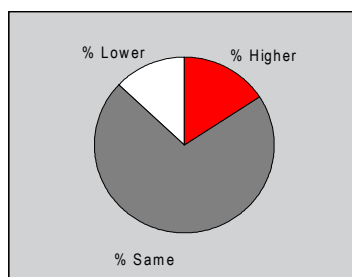
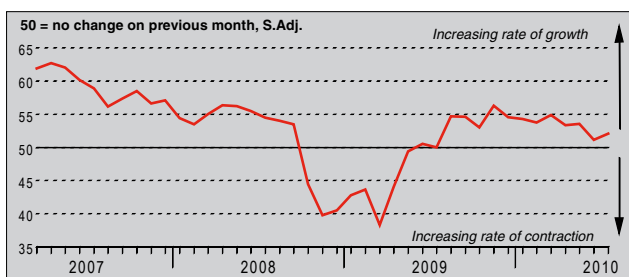
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



After slowing to only a marginal pace during June, Brazilian service sector activity growth accelerated to a moderate rate at the start of the third quarter. Panel members reported that output rose on the back of a slightly faster inflow of new business. Even so, the increase remained weaker than the average for the current one-year sequence of expansion. Of the six services sub-sectors monitored by the survey, four registered higher activity in July, led by Renting & Business Activities.

New Business Index

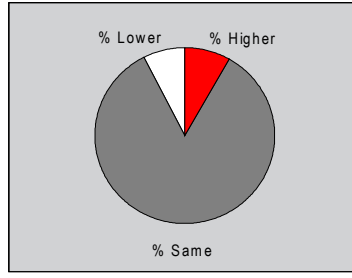
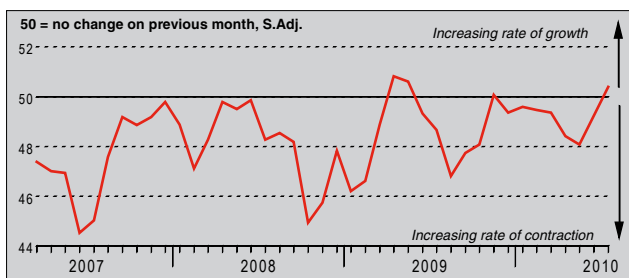
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business growth across the Brazilian services industry picked up to a moderate pace during July. Reports suggested that a combination of factors had supported demand for services, including better economic conditions and the football World Cup. However, the rate of expansion remained weaker than the series trend. All-but-one of the sub-sectors covered by the survey recorded a rise in new work on the month; Financial Intermediation posted a modest contraction.

Outstanding Business Index

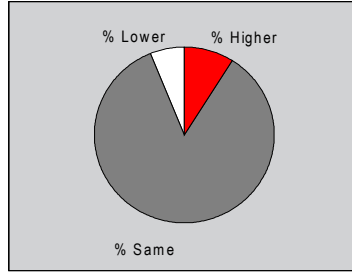
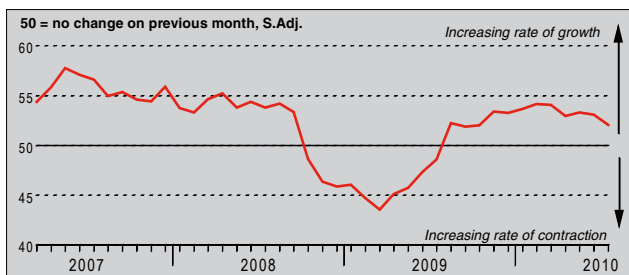
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



For the first time in eight months, the volume of unfinished business at Brazilian service providers accumulated in July. However, the rate of growth was only fractional. The vast majority of respondents (over 84%) saw no change in backlogs on the month. Where work-in-hand rose since June, panellists frequently commented on greater market demand and delays caused by customers. Transport & Storage recorded the fastest build up in outstanding work.

Employment Index

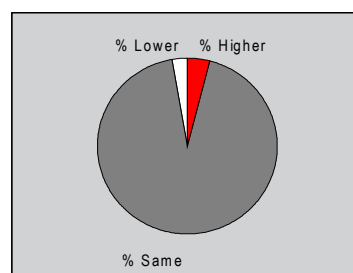
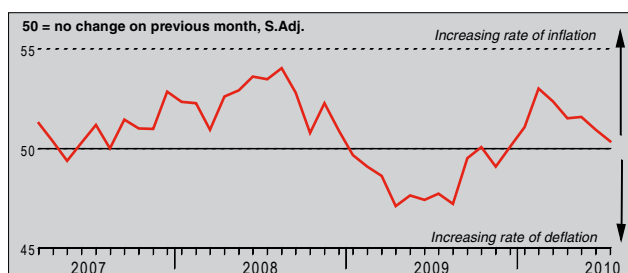
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



July marked one year of continuous employment growth in the Brazilian service sector. Companies monitored by the survey stated that additional workers were required to accommodate greater demand for services. Sector data revealed that job creation was most pronounced in Renting & Business Activities, while Hotels & Restaurants and Postage & Telecommunications both posted a slight contraction in staffing. The overall rate of personnel growth slowed to the weakest since October 2009.

Prices Charged Index

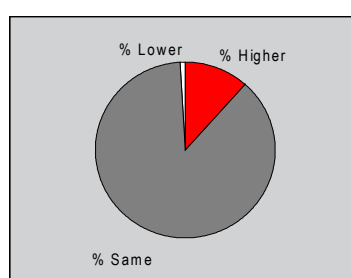
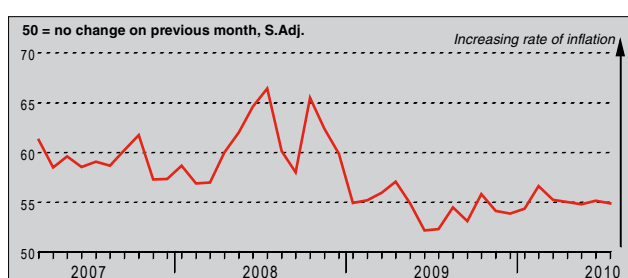
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



After accounting for seasonal variation, the Prices Charged Index slipped to a seven-month low in July. The latest reading pointed to only a fractional increase in charges for Brazilian services. Where output prices were increased, this was frequently attributed to greater input costs. Meanwhile, lower tariffs were largely due to competitive pressures. Financial Intermediation posted the fastest rate of inflation, while charges fell fractionally in Renting & Business Activities and Hotels & Restaurants.

Input Prices Index

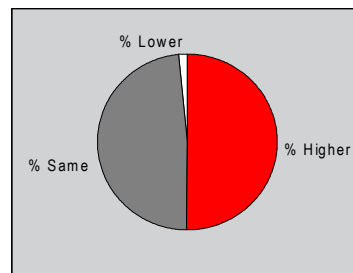
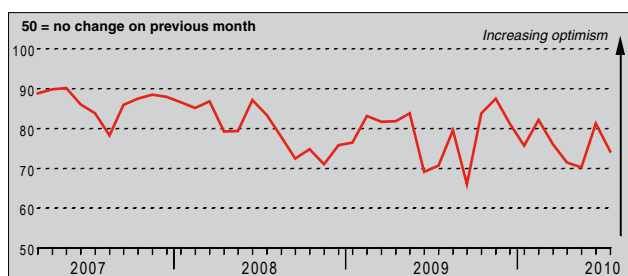
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input cost inflation in the Brazil service industry was robust in July, albeit slower than in June. Panellists stated that greater wage and raw material prices provided the main upward pressure on input costs. Inflation has been recorded by service providers throughout the series' forty-one month history. All of the sub-sectors covered by the survey recorded higher input prices during the latest survey period. Of these, Renting & Business activities recorded the fastest increase.

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?



Just over half of Brazilian service firms included in the survey were optimistic in July about future activity levels, compared with less than 2% that were pessimistic. Economic growth, strengthening market demand and internal company investments were the principal reasons for confidence, according to anecdotal evidence. 'Other Services' was the most positive sub-sector during the latest survey period, followed by Renting & Business Activities. However, in relation to the series' historical trend, optimism was relatively subdued overall.

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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