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HSBC Brazil Services PMI™

Activity and new business both increased at accelerated rates in August.

Key findings:

- New work growth was moderate, but remained weaker than the series trend.
- Job creation slowed further.
- Twelve-month outlook moderated.

The headline seasonally adjusted Business Activity Index continued to climb in August from June's eleven-month low. At 52.6, up from 51.3 in July, the latest reading signalled a moderate rise in Brazilian service sector output. Growth was the fastest since March, although still below the trend for the current thirteen-month sequence of expansion. Of the six services sub-sectors monitored by the survey, four registered higher activity levels, the exceptions being Hotels & Restaurants and 'Other Services'.

Driving the latest increase in service sector output was a faster rise in new business. Incoming new work expanded at a moderate pace, with around one-fifth of panellists noting growth. Reports highlighted stronger market demand as the primary factor. Greater receipts of new business were recorded in all-but-one of the services sub-sectors in August; Hotels & Restaurants posted a modest contraction.

The volume of outstanding work at Brazilian service providers fell during the latest survey period, albeit only fractionally. Firms commented on efforts to clear backlogs. This followed one month of marginal growth. By sector, Hotels & Restaurants registered the sharpest reduction in unfinished business. Only Financial Intermediation and Transport & Storage posted an accumulation of work-in-hand since July.

To cope with growing business requirements, Brazilian service companies added to payrolls in August. Employment rose for

the thirteenth successive month. However, the rate of job creation slowed to a modest pace that was the mildest of the current sequence. By detailed sector, the fastest increases in staffing levels were recorded by Financial Intermediation and Transport & Storage.

Input price inflation in Brazil's services economy was robust in August, which panel members linked to stronger demand for inputs. However, the latest increase was the least pronounced for seven months. All six services sub-sectors recorded higher input costs on the month, with inflation fastest in Renting & Business Activities.

Partly in order to cover increases in their cost burdens, but also to take advantage of more favourable business conditions, Brazilian service providers raised their charges in August. Output price inflation was modest overall, but the fastest since May. Post & Telecommunications registered the sharpest increase in charges.

Maintaining the series trend, Brazilian service companies were optimistic with regard to future activity levels in August. Underlying the latest positive sentiment were expectations that further economic growth, advertising campaigns and government investments in domestic infrastructure would facilitate trade. However, confidence about future output continued to slide. Latest data showed that overall sentiment growth was at its lowest for nearly a year.

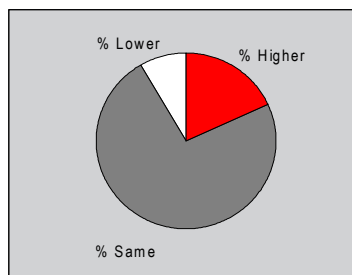
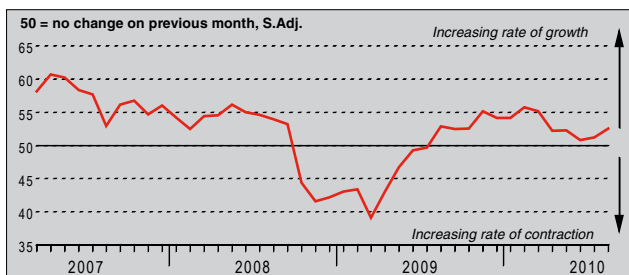
Business Activity Index



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

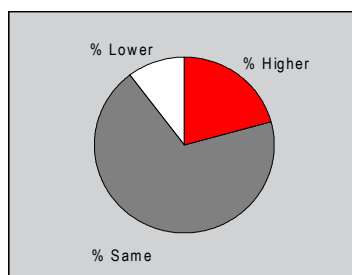
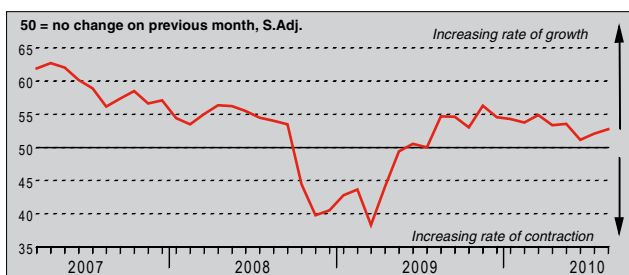
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector activity growth continued to accelerate in August from June's recent low. Output rose at a moderate rate, with over 18% of the survey panel recording a rise. Panel members indicated that activity levels were raised on the back of further inflows of new business. However, the latest increase remained weaker than the average for the current sequence of expansion. Four of the six sub-sectors covered by the survey registered higher output on the month.

New Business Index

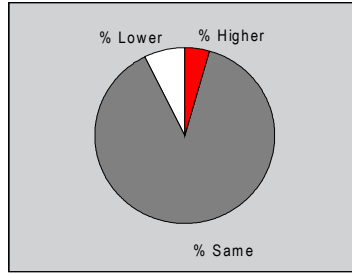
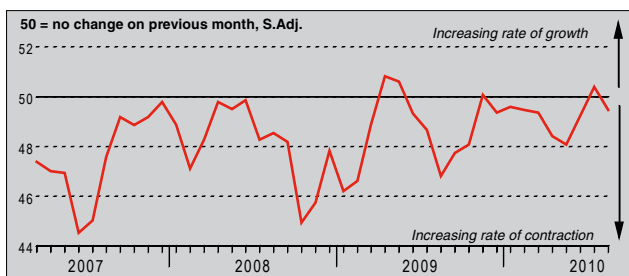
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new business to the Brazilian service sector rose at an accelerated rate during the latest survey period. Growth was moderate overall, but the fastest since May, with around one-fifth of respondents recording gains. Companies stated that stronger market demand supported sales levels in August. However, the rate of increase remained weak in comparison to the series trend. All-but-one of the monitored services sub-sectors posted higher new work; Hotels & Restaurants registered a modest contraction.

Outstanding Business Index

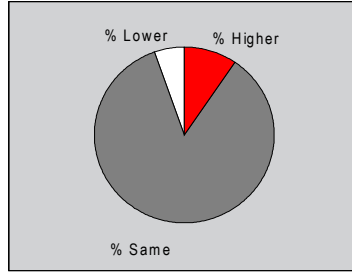
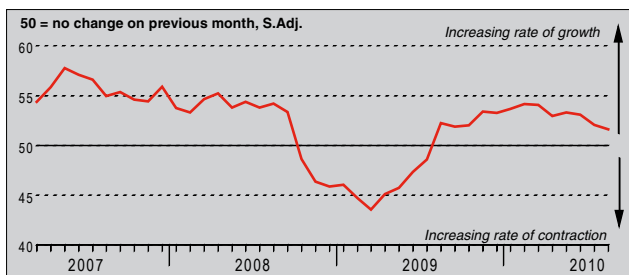
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



After rising above the no-change mark of 50.0 for the first time in eight months in July, the seasonally adjusted Outstanding Business Index sank back below the neutral threshold in August. The latest reading signalled a marginal reduction in unfinished work at Brazilian service providers. In those cases where work-in-hand fell, most respondents commented on efforts to clear backlogs. Data showed that Hotels & Restaurants recorded the fastest contraction in outstanding work.

Employment Index

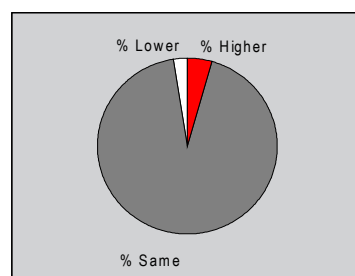
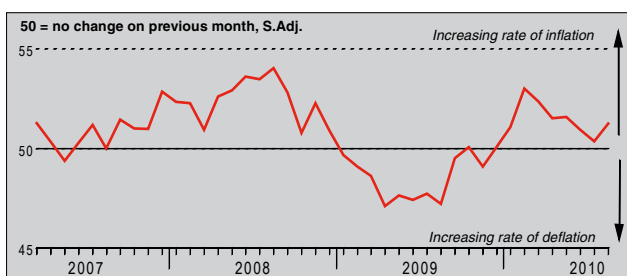
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment growth across the Brazilian services economy was sustained in August, although the rate of increase slowed again. The latest rise was moderate and the mildest of the current thirteen-month period of expansion. Where companies hired additional staff, heavier workloads was the principal reason. Sector data revealed that job creation was fastest in Financial Intermediation and Transport & Storage, while Hotels & Restaurants was the only sub-sector to record a decline.

Prices Charged Index

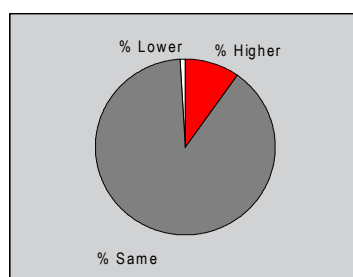
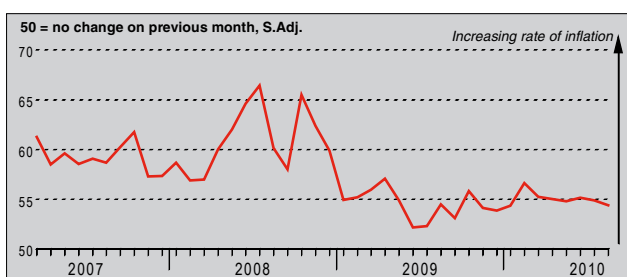
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



In contrast to input price inflation, which moderated, charge inflation in the Brazilian service sector accelerated during August. The latest increase was the most pronounced since May, which panellists attributed to higher input costs and stronger market demand. Even so, the vast majority (93%) of firms maintained their rates over the month. Post & Telecommunications posted the sharpest rise in charges of the six sub-sectors covered.

Input Prices Index

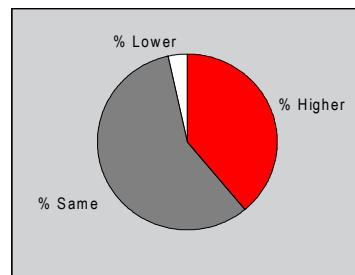
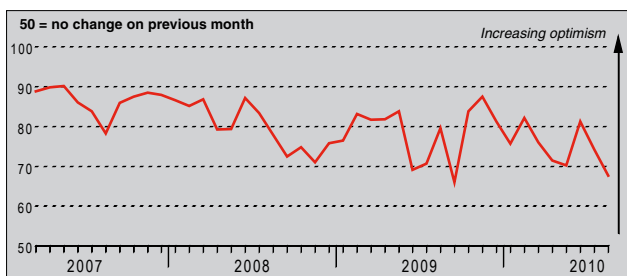
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation faced by Brazilian service companies was robust in August. Approximately one-tenth of panel members noted higher input costs on the month, citing stronger demand levels. Average input costs in the sector have risen throughout the survey's forty-two month history, although the latest increase was the mildest for seven months. All six services sub-sectors recorded input price inflation, with the sharpest in rate seen in Hotels & Restaurants.

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?



Brazilian service providers remained optimistic about future activity levels in August. Around 39% of respondents anticipate a rise in output over the next year, compared with less than 4% that expect a decline. Economic growth and government investment in domestic infrastructure were cited by firms as key reasons for confidence. Planned advertising campaigns were also mentioned by several panellists. However, positive sentiment sank to its lowest level for eleven months.

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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