HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Services PMI™ (with Composite PMI data)

All-sector output in Brazil continued to grow modestly

Summary

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. In contrast, manufacturing production fell for the first time since July 2009. Overall, output continued to grow at a moderate pace, as shown by the HSBC Brazil Composite Output Index posting 51.4. This was little-changed from July's figure of 51.3.

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. New order receipts at manufacturers fell for the first time in over a year. Subsequently, the Composite New Business Index sank to a thirteen-month low to signal a weaker rise in total new work.

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. Unfinished business in the manufacturing industry also fell, and at a faster rate. Reflecting the sector data, the Composite Outstanding Business Index fell below the no-change mark of 50.0 for the first time in three months.

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. Staffing growth at manufacturers slowed to a marginal pace. The Composite Employment Index slipped further as a result, with the latest reading indicating only a modest rate of expansion.

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. Meanwhile, manufacturers noted a sharper slowdown in input cost inflation. Consequently, the Composite Input Prices Index fell further to an eleven-month low.

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. Charge inflation in the manufacturing industry was broadly similar to that in the service sector. As a result, the Composite Output Prices Index signalled a

Comment

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

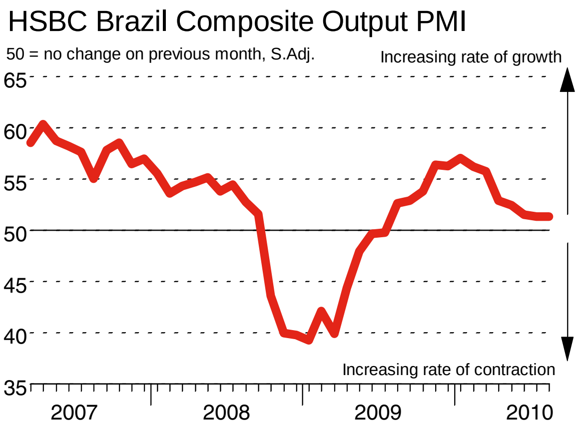
"Growth in the services sector accelerated moderately in August, with the Business Activity Index rising to 52.6 (from 51.3 in July). Surprisingly, the employment index retreated for the second consecutive month (but continues to point to rising employment). The new business index rose slightly, while the outstanding business index was again below 50, suggesting that the recently observed soft patch was not limited to the manufacturing sector.

"The composite output index remained virtually flat relative to the previous month (51.4 in August, compared to 51.3 in July), with the rise in the services business index offsetting a decline in the manufacturing output index. Overall, these results suggest that the period of more moderate growth observed during the second quarter appears to have persisted into the third quarter."

Key points

- Total new business rose at slowest rate of current sequence.
- Rate of job creation slowed.
- Overall charge inflation accelerated, while input price inflation eased.

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.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

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