HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC Brazil Services PMI™

Business outlook improved in September, but current growth of activity remained muted.

Key findings:

- Expansions of both output and new business remained moderate.
- Employment growth was modest.
- Prospects for future activity levels improved, but remained relatively subdued.

Latest data pointed to weaker expansions in both activity and new business across Brazil's service sector at the end of Q3, although growth of both variables remained moderate. Consequently, outstanding work accumulated only marginally for the second time in three months and job creation remained modest. Overall, survey data suggest that conditions in the sector remained favourable in September.

At 51.3 in September, the headline seasonally adjusted Business Activity Index was below August's reading of 52.6 to signal a slowdown in output growth. Nevertheless, the index remained at a level indicative of a moderate rate of expansion. Activity levels in the Brazilian service sector have risen every month since August 2009. Quarterly averages of the series show that the output performance in Q3 was broadly in line with that of Q2.

Underlying the latest increase in activity were further gains in new business. Incoming new work to the Brazilian service sector increased moderately and for the sixteenth month in succession. Reports indicated that improved market demand and company expansions were behind the latest growth of new work. All six of the services sub-sectors monitored by the survey registered increased new business in September.

Further modest growth of new work led to only a marginal rise in outstanding business at Brazilian service providers during the latest survey period. The slight accumulation of backlogs was in contrast with the series trend, which currently points to a modest contraction of work-in-hand over the twenty-three month history.

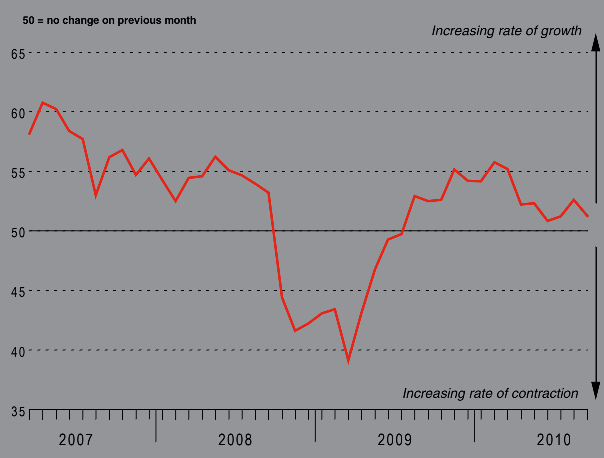
To manage rising business requirements, Brazilian service firms took on extra staff in September. However, employment rose at only a moderate pace. Sector data revealed that job creation was fastest in Financial Intermediation, while Hotels & Restaurants registered a decrease in personnel numbers.

Partly reflecting current business conditions, but also due to expectations of further economic growth, marketing initiatives and company expansions, sentiment amongst Brazilian service firms improved in September. Over 47% of respondents were confident of a rise in activity in twelve months' time. However, optimism remained subdued in relation to the historic trend for the series. Data showed that Hotels & Restaurants was the most confident sub-sector.

Brazilian service providers noted another increase in their average input costs in the final month of Q3. Input price inflation was robust, despite slowing to the weakest rate for nine months. Companies attributed greater input costs to higher fuel and raw material prices, alongside increased staff costs. Inflation was most pronounced in Hotels & Restaurants and Renting & Business Activities.

In order to pass on the burden of higher input costs to customers, Brazilian service firms raised their charges in September. Output price inflation was modest and broadly unchanged since August. Transport & Storage posted the most marked increase in tariffs, while Hotels & Restaurants recorded a decline.

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.

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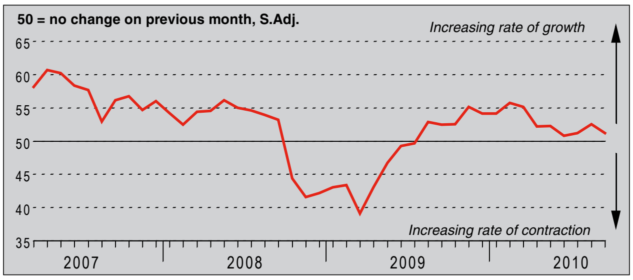
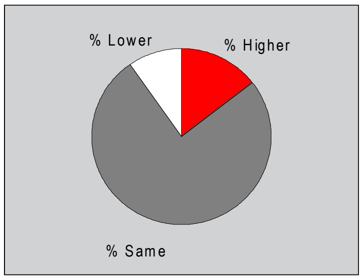
Business Activity Index

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.

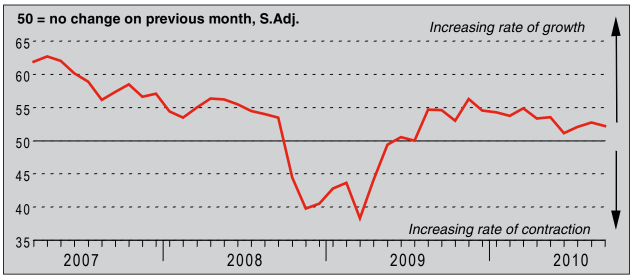


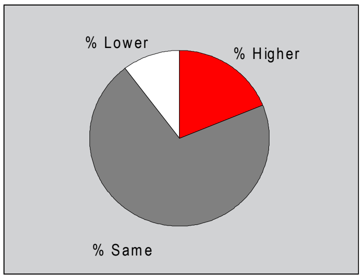


Brazilian service sector activity continued to increase at the end of the third quarter, bringing the current run of growth to fourteen months. Panellists indicated that output was raised in order to accommodate stronger market demand and further gains in new business. However, the latest rise was only moderate and weaker than in August. Moreover, the rate of expansion in September was milder than the average for the year-to-date.

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.

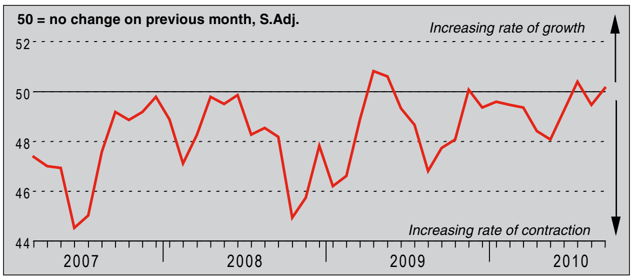


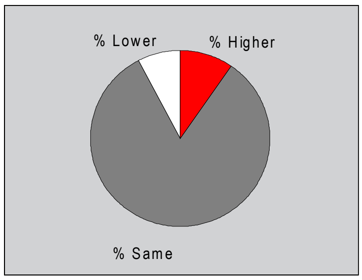


The seasonally adjusted New Business Index registered above the no-change threshold of 50.0 for the sixteenth month in succession in September. The latest reading signalled another moderate rise in new work receipts across the Brazilian services industry, albeit at a slightly weaker rate than in August. Around 19% of firms noted growth, frequently commenting on stronger market demand and company expansions. Sector data showed that new business increased across all six monitored service areas.

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.

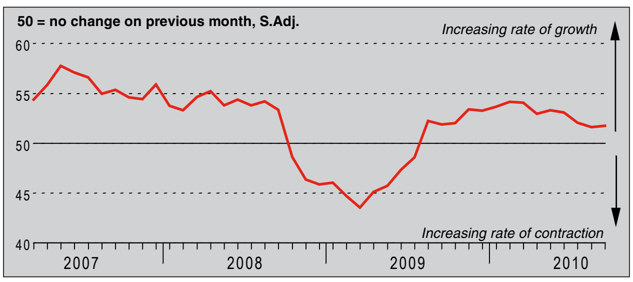


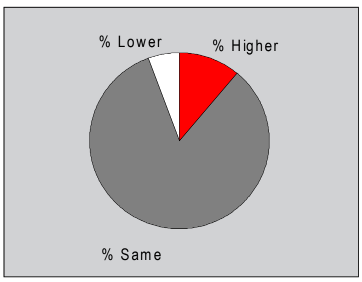


For the second time in the past three months, business outstanding at Brazilian service firms rose in September. However, the rate of accumulation was only fractional. In the 10% of cases where backlogs increased, panellists reported heavier workloads. Meanwhile, those respondents that noted a decline (8%) mostly commented on excess capacity. Transport & Storage posted the fastest growth of work-in-hand, and Hotels & Restaurants the steepest fall.

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).

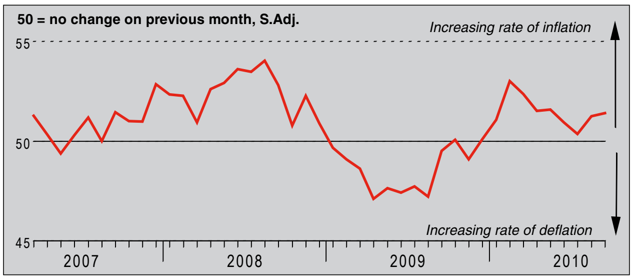


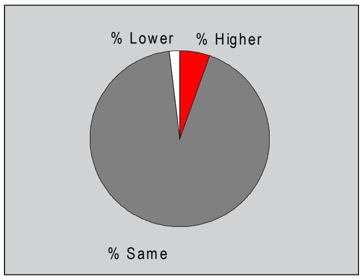


Brazilian service providers continued adding to payrolls during September. Moreover, the rate of job creation in the sector accelerated slightly. Even so, growth remained weaker than the series twelve-month average. Reports indicated that greater business requirements, due to heavier workloads and company expansions, was the key factor behind decisions to hire additional staff. Financial Intermediation posted the sharpest workforce expansion, while Hotels & Restaurants registered a decline in 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.

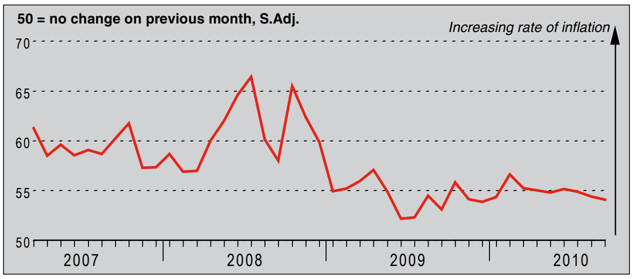


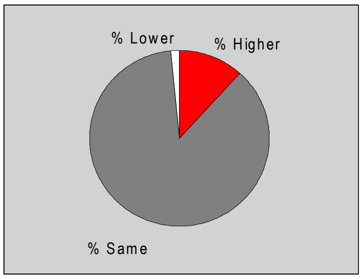


Output price inflation across Brazil's services economy continued in September, and at a rate little-changed since August. However, with only 5% of the survey panel raising charges on the month, against 2% cutting them, the rate of increase remained modest and weaker than the average for the year-to-date. Higher tariffs were commonly linked by panellists to greater input costs. Transport & Storage firms raised charges to the greatest extent, while those in the Hotels & Restaurants sector reduced tariffs on average.

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.

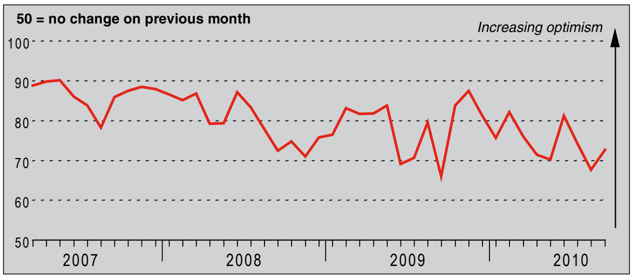


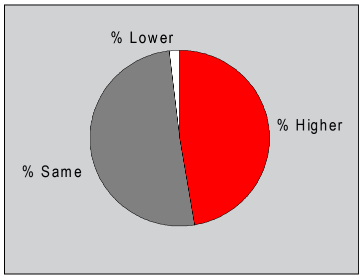


After accounting for seasonal factors, the Input Prices Index registered its lowest reading for nine months in September. Nevertheless, the latest figure signalled another robust increase in average input costs faced by Brazilian service providers. Companies monitored by the survey linked greater input costs to higher fuel and raw material prices, as well as increased personnel expenses. By sector, Hotels & Restaurants and Renting & Business Activities recorded the sharpest rates of inflation.

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?





After dipping to an eleven-month low in August, the Business Expectations Index regained some ground in September to signal improved confidence amongst Brazilian service firms about future activity levels. However, the latest reading remained well below the series trend. A combination of expected economic growth, planned advertising campaigns and company expansions were the main reasons for positive sentiment, according to panel members. Hotels & Restaurants was the most optimistic sub-sector during the latest survey period.

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.

Warning