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## HSBC Brazil Services PMI™

Robust growth of new business supported another moderate rise in service sector activity in October.

### Key findings:

- Expansions in output and new work both accelerated.
- Job creation remained modest.
- Input price inflation eased to thirteen-month low.

Latest data pointed to a slight improvement in business conditions across Brazil's services economy at the start of Q4. Both new business and output growth accelerated, albeit only slightly in the case of the latter. Meanwhile, job creation remained moderate and the outlook for the sector for the coming year weakened slightly.

The headline seasonally adjusted Business Activity Index registered 51.8 in October, fractionally above September's reading of 51.3. The latest figure pointed to another moderate expansion of Brazilian service sector output. Companies attributed higher activity to successful promotional campaigns and further gains in new work. Four of the six sub-sectors covered by the survey posted a rise in output during the latest survey period, with Post & Telecommunications and 'Other Services' recording the most pronounced increases.

Demand for Brazilian services remained solid at the start of the fourth quarter, as highlighted by another rise in new business. Growth was robust and the sharpest since March. All six sub-sectors registered greater receipts of new work, although the rise in Hotels & Restaurants was only modest.

Despite a faster rise in new business, work-in-hand at Brazilian service companies continued to accumulate at only a slight pace in October. Respondents linked both growth and depletion of backlogs to difficulties caused by recent elections in Brazil.

Stronger demand conditions and improved levels of new business led service providers to hire additional staff during

October. Job creation continued at a moderate pace as a result, albeit at a fractionally weaker rate than in September. All-but-two of the monitored sub-sectors registered employment growth; Financial Intermediation and Hotels & Restaurants posted contractions.

Although Brazilian service providers retained an optimistic outlook in October with regard to activity in the next year (over two-fifths of the survey panel anticipate an expansion), overall sentiment dipped slightly since September. According to respondents, confidence was based on improving operating conditions, predicted economic growth and upcoming promotional work. Financial Intermediation and Hotels & Restaurants were the most upbeat sub-sectors in October.

Both input and output price inflation moderated during the latest survey period. Input costs rose solidly but at the slowest rate for over a year, while charges increased at the mildest pace for three months. Reports indicated that a weaker US dollar, resulting in cheaper imports, was a key contributor to the easing in inflationary pressures. Where greater input costs were recorded, firms commented on higher raw material prices. Meanwhile, panellists mostly linked increased tariffs to input cost inflation. By sector, Hotels & Restaurants registered the most marked rise in input costs, but was the only sub-sector to cut charges. Only Transport & Storage posted a reduction in input costs on the month.

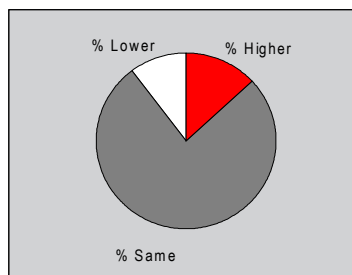
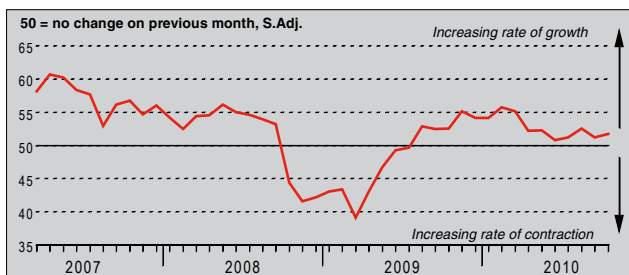
### Business Activity Index



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

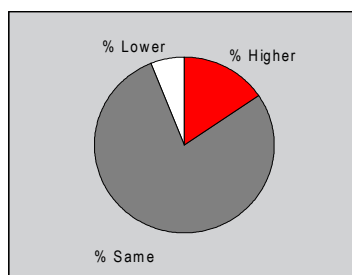
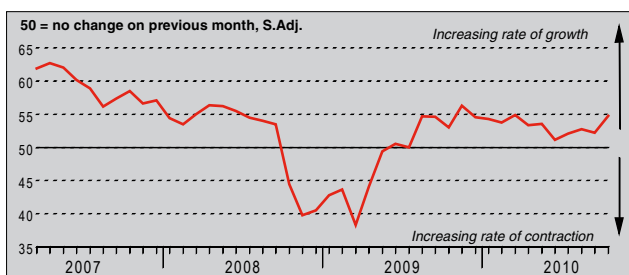
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector activity growth remained modest at the start of Q4, despite accelerating slightly. In the 13% of cases where increased output was recorded, firms frequently commented on successful marketing and improved sales levels. Four of the six sub-sectors covered by the survey posted higher activity in October, with Post & Telecommunications and 'Other Services' registering the most pronounced rates of expansion. Rising activity has now been recorded across the sector as a whole for fifteen successive months.

### New Business Index

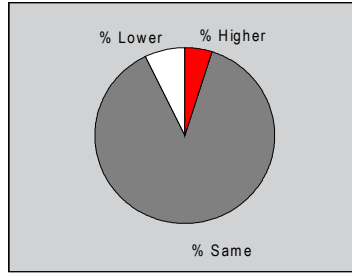
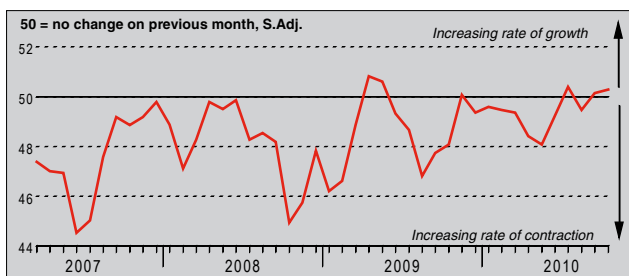
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



For the seventeenth straight month in October, Brazilian service providers noted a rise in new business receipts. Moreover, the rate of expansion accelerated since September to a robust pace, with over 15% of panel members reporting growth. Respondents highlighted stronger market demand as the main reason for higher new business. All six sub-sectors posted a rise in new work on the month, although in Hotels & Restaurants the rate of increase was only modest.

### Outstanding Business Index

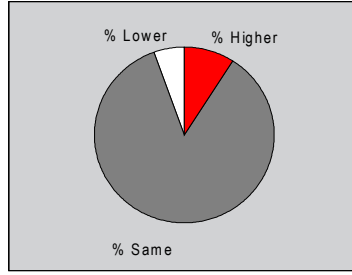
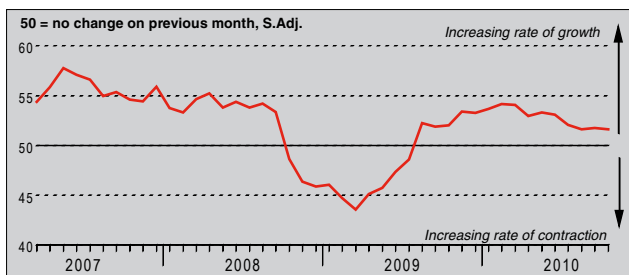
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index was virtually unmoved in October from its position in the previous month. The latest reading signalled another fractional accumulation of backlogs at Brazilian service firms. The index has not varied by more than one point from the no-change mark of 50.0 for five months, suggesting that workloads in the sector have been manageable over this period. Difficulties caused by recent elections was the main reason given by respondents for both higher and lower levels of work-in-hand.

### Employment Index

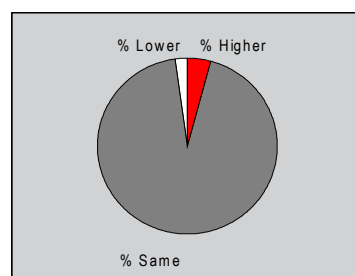
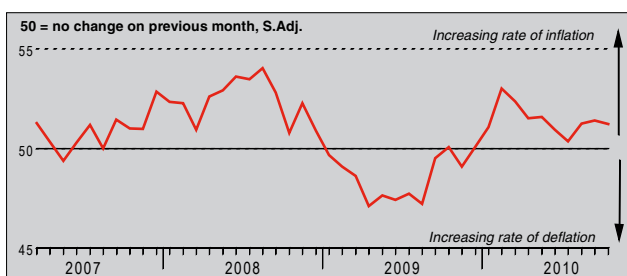
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Job creation across Brazil's services economy continued during October, which survey participants commonly attributed to higher volumes of new business. However, the rate of growth slowed fractionally since September, and remained weaker than the year-to-date average for the series. Four sub-sectors recorded a rise in staffing levels over the month, the exceptions being Financial Intermediation and Hotels & Restaurants.

## Prices Charged Index

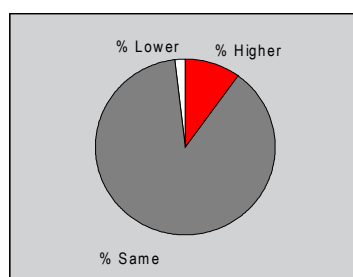
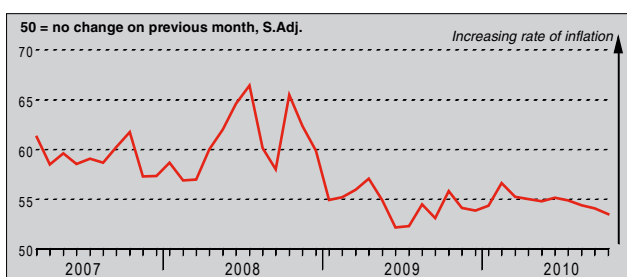
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Latest data pointed to another modest increase in prices charged for Brazilian services in October. Output prices in the sector have risen successively for almost a year. Anecdotal evidence suggested that the latest rise primarily reflected efforts to protect profit margins from erosion by higher input costs. All-but-one of the six sub-sectors recorded higher tariffs on the month; Hotels & Restaurants posted a moderate decline. Financial Intermediation registered the fastest inflation.

## Input Prices Index

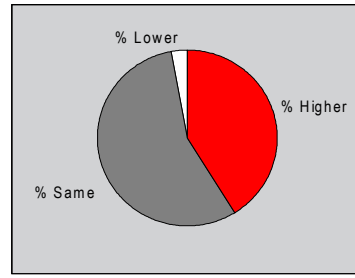
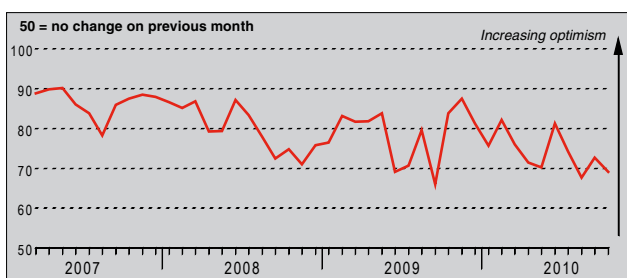
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation across Brazil's service sector slowed during October. The latest rise was the mildest for over a year. Respondents linked the slowdown to a weakening in the US dollar and uncertainty related to recent elections. Exactly 10% of panellists saw their average input costs increase, which they primarily attributed to higher raw material prices (particularly food-related items). Of the six sub-sectors monitored by the survey, Hotels & Restaurants posted the sharpest inflation, while input costs fell slightly on average in Transport & Storage.

## 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 retained a positive outlook with regard to future activity levels in October. Over two-fifths of panellists anticipate a rise in output over the next year, while less than 3% predict a fall. Reports suggested that improving economic conditions, expectations of economic growth and plans for increased advertising all supported optimism. Although positive sentiment remained high in the latest survey period, confidence was slightly lower than in September.

## 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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