

HSBC Brazil Services PMI™ (with Composite PMI data)

Headline index points to further slowdown in Brazilian output growth in October

Summary

Registering 51.8 in October, fractionally up from September's reading of 51.3, the headline seasonally adjusted Business Activity Index pointed to another moderate expansion of Brazilian service sector output. Companies attributed higher activity to successful promotional campaigns and further gains in new work.

The headline HSBC Brazil Composite Output Index slipped further to 50.8 in October, from 51.0 in September, as a modest contraction in manufacturing production outweighed the rise in services activity growth.

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. Despite a further fall in manufacturing new orders, the Composite New Business Index climbed to a five-month high and signalled a moderate increase in all-sector new work.

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. Meanwhile, manufacturers reported a sharper reduction in unfinished business. The Composite Outstanding Business Index pointed to a marginal decline in overall backlogs.

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. Latest data signalled unchanged levels of employment at manufacturers. Overall, staffing rose at a slower rate, as indicated by a slight fall in the Composite Employment Index.

Both input and output price inflation in services 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. Manufacturers also registered a weaker rise in input costs, while charge inflation in the industry remained moderate. Both the Composite Input and Output Prices Indices indicated slower inflation on the month.

Comment

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

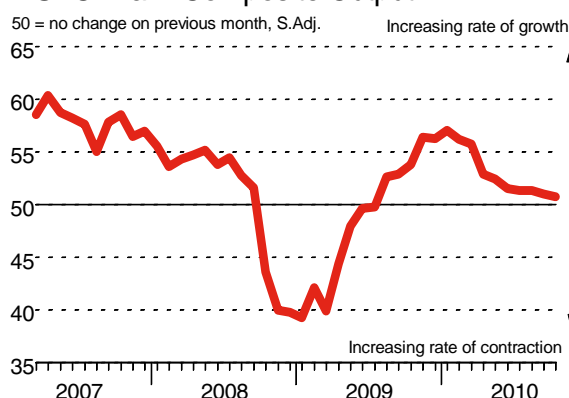
"The HSBC Brazil Services PMI rose from 51.3 in September to 51.8 in October, reflecting a modest expansion of services economy, which was led by a rise in new business. The HSBC Composite PMI index, on the other hand, fell to its lowest level in 15 months, to 50.8 (from 51.0 in September), dragged down by the lacklustre manufacturing production reading released a few days ago. The divergence between the manufacturing and the service sectors suggests that while domestic demand conditions remain robust, as reflected by the Services PMI, BRL strength is starting to weigh on business activity in the manufacturing sector. However, companies are reporting that a weakening real is helping to ease pressure on input prices."

Key points

- Expansion in all-sector output growth slowed, despite pick-up in new business growth.
- Job creation eased slightly.
- Inflationary pressures eased.

Historical Overview

HSBC Brazil Composite Output PMI



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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.

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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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