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HSBC Brazil Services PMI™

December data point to slower expansion of Brazil's service sector.

Key findings:

- Output, new business and employment all rose at weaker rates.
- Inflationary pressures eased.
- Business confidence at near-series record low.

Brazilian service sector growth moderated in the final month of the year, with rates of expansion in new work, activity and employment all slowing. Business confidence regarding the year ahead dimmed as a result, with optimism hitting its lowest since September 2009. Meanwhile, inflationary pressures subsided slightly.

Registering 51.9 in December, down slightly from 52.1 in November, the headline HSBC Business Activity Index signalled a milder increase in Brazilian service sector output. The latest reading indicated a modest rate of growth. Of the six sub-sectors monitored by the survey, Postage & Telecommunications posted the sharpest expansion in activity. Meanwhile, Financial Intermediation and Hotels & Restaurants both recorded declines.

Extending the current run of growth to nineteen months, incoming new work to Brazil's service sector rose in December. Although fractionally weaker than in November, the latest increase remained solid and reflected both improved market conditions and stronger demand.

Brazilian service providers continued to hire new staff at the end of Q4. Greater business requirements were the main reason for hiring, according to panellists. However, the rate of job creation eased in line with the trend in activity. Employment growth was moderate and the weakest of the current sequence

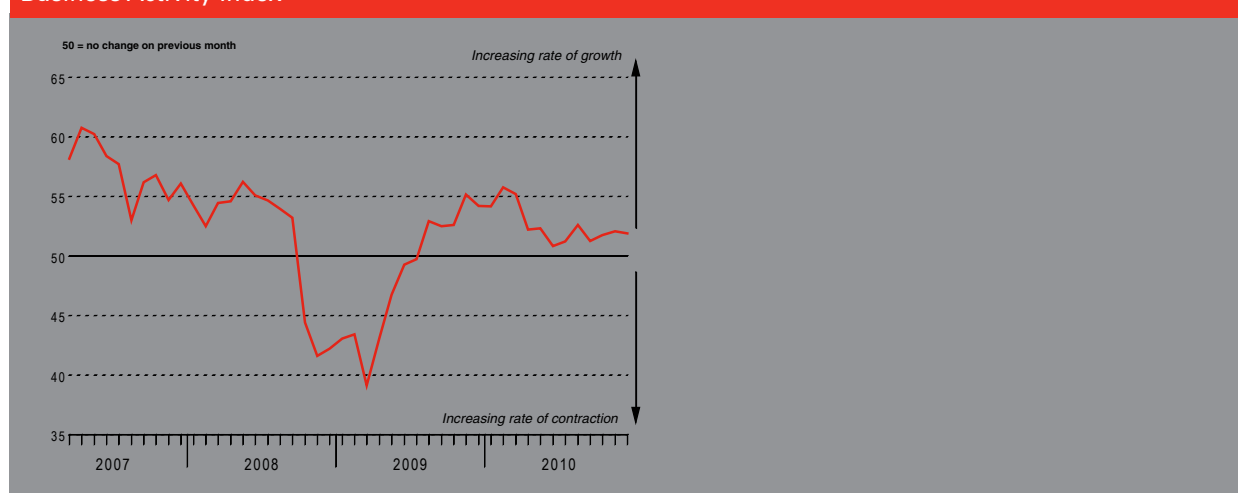
of expansion. Sector data revealed that staffing fell in Financial Intermediation and Hotels & Restaurants.

December data suggested that Brazilian service firms kept on top of workloads, despite further growth of new business. Backlogs fell marginally since November, following three months of slight accumulation.

Slower expansions in activity and new work were reflected in December's business expectations reading, which reached a near-series record low. Only one-third of Brazilian service companies were optimistic regarding output levels over the next twelve months, down from two-fifths in November. Where firms were confident of higher activity, anecdotal evidence highlighted expectations of further economic growth and improved demand. Postage & Telecommunications was the most optimistic sub-sector during the latest survey period, and Financial Intermediation the least.

Both input and output price inflation moderated during December, albeit only fractionally in the former case. Average input costs continued to increase at a robust rate, which panel members primarily attributed to higher raw material prices and greater staff payments. To protect profit margins from rising cost burdens, service firms raised their tariffs on the month. Output price inflation was moderate as a result, and remained above the long-run series average.

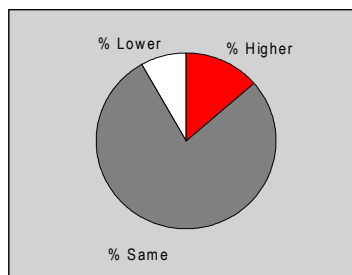
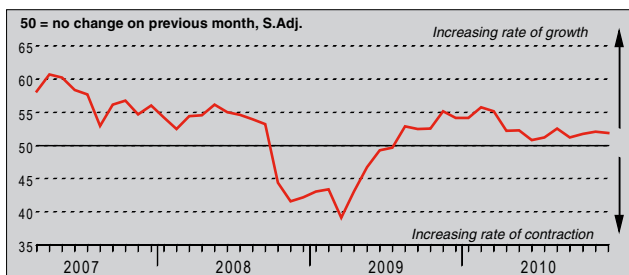
Business Activity Index



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

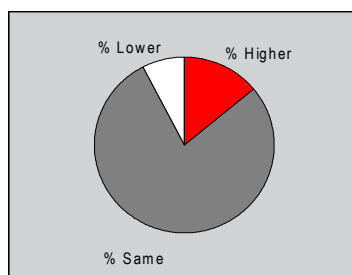
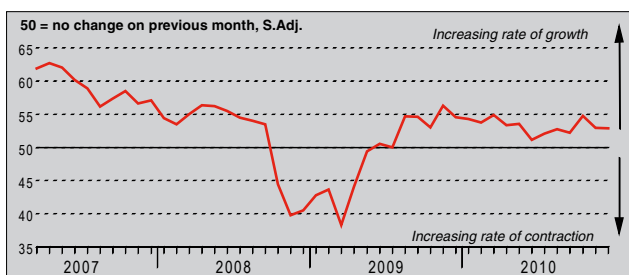
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service sector companies raised activity for the seventeenth straight month in December, which panel members linked to another inflow of new business. However, the rate of growth slowed to a moderate pace that was weaker than the average for the current sequence. Four of the six sub-sectors monitored by the survey recorded a rise in output since November; Financial Intermediation and Hotels & Restaurants both registered declines.

New Business Index

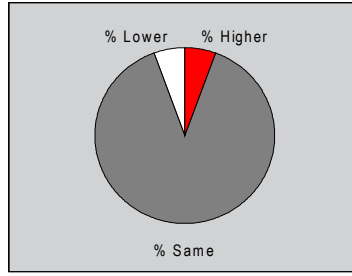
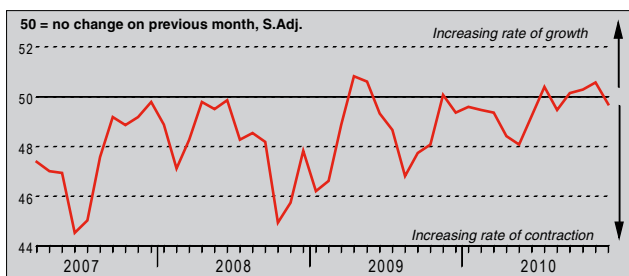
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Virtually unmoved in December, the seasonally adjusted New Business Index signalled another solid rise in receipts of new work at Brazilian service providers. Anecdotal evidence suggested that favourable market conditions had supported demand for services. Approximately 14% of the survey panel saw growth on the month, against less than 8% that reported a decline. Postage & Telecommunications posted the sharpest increase in new business on the month.

Outstanding Business Index

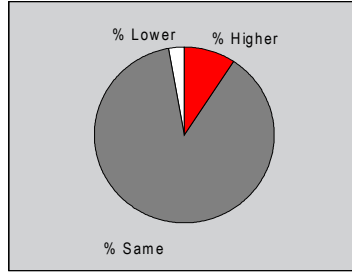
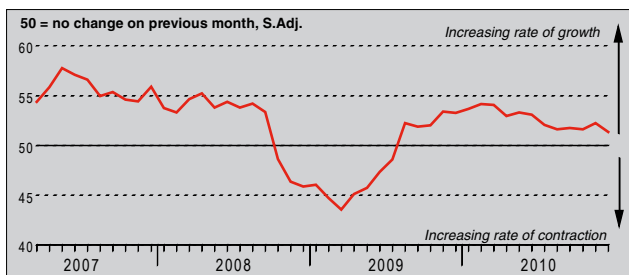
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



For the seventh successive month in December, the seasonally adjusted Outstanding Business Index posted close to the no-change mark of 50.0. This suggests that workloads in Brazil's service sector remained manageable, despite continued growth of new business. Two of the six sub-industries monitored by the survey saw a depletion of backlogs since November. Of these, Hotels & Restaurants recorded the most marked rate of decrease.

Employment Index

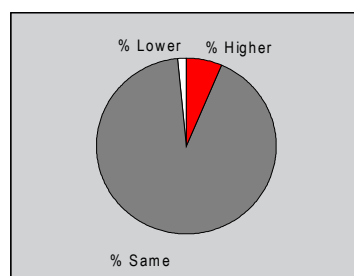
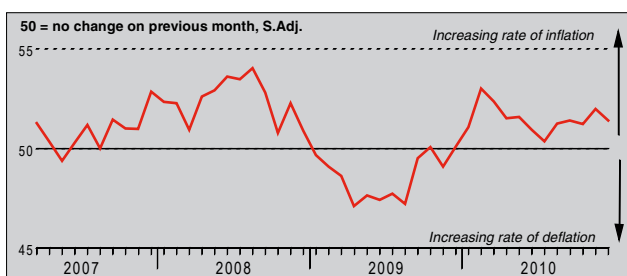
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Brazilian service companies continued adding to payrolls in the final month of the year to accommodate greater market demand. This brought the current run of expansion to seventeen months. However, the latest increase was only modest and the mildest of the present sequence. Four sub-sectors registered job creation on the month, with 'Other Services' posting the sharpest gain. Financial Intermediation and Hotels & Restaurants reported contractions in staffing.

Prices Charged Index

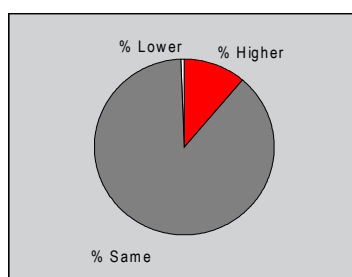
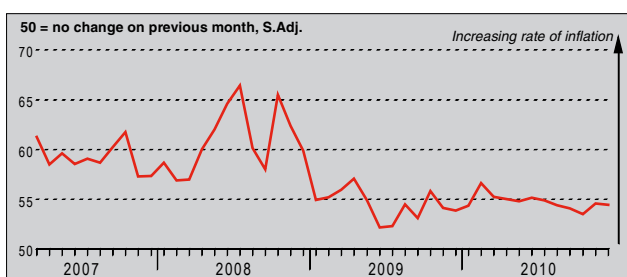
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



December data pointed to another rise in prices charged for services in Brazil. Output price inflation in the sector was modest and weaker than in November. In the 5% of cases where tariffs were raised, panellists frequently commented on greater input costs. In comparison, only 1.3% of respondents trimmed their rates. All six services sub-industries posted higher charges on the month, with Postage & Telecommunications registering the steepest rate of increase.

Input Prices Index

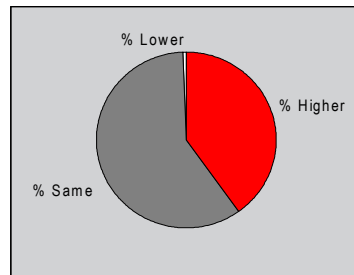
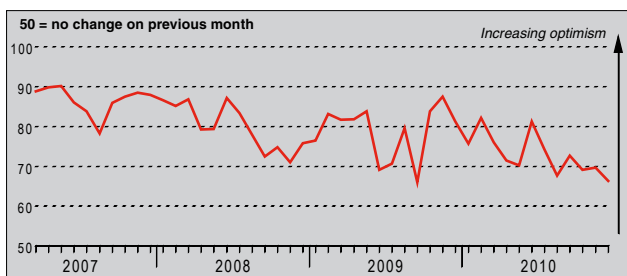
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



A combination of higher raw material prices (particularly for food-related items) and greater employee payments resulted in another increase in average input costs at Brazilian service companies during December. Input price inflation was robust and little-changed from November's four-month peak, with just over 9% of panellists recording a rise. Hotels & Restaurants posted the sharpest inflation at the end of Q4, followed by Renting & Business Activities.

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?



Down from two-fifths in November, only one-third of Brazilian service providers were confident in December of a rise in activity over 2011. Consequently, the Business Expectations Index sank to a near-series record low. Where optimism was reported, firms commented on expectations of further economic growth and improving demand. By sector, Postage & Telecommunications was the most confident during the latest survey period, and Financial Intermediation the least.

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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