

HSBC Brazil Services PMI™ (with Composite PMI data)

Manufacturing drove Brazilian private sector output growth as services expansion slowed in December

Summary

Boosted by sharper manufacturing production, the HSBC Brazil Composite Output PMI rose from 51.5 in November to a seven-month high of 52.3 in the final month of 2010.

In contrast, the headline HSBC Business Activity Index signalled a milder increase in Brazilian service sector output, sinking to 51.9, from 52.1 in November. The latest reading indicated a modest rate of growth.

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. Meanwhile, manufacturers reported a solid expansion in new orders, following four months of contraction. At the composite level, new work rose solidly in December.

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. In the manufacturing industry, payrolls expanded at a moderate and accelerated pace. Overall, jobs growth across Brazil's private sector was modest and the fastest since July.

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. Unfinished business was largely unchanged in manufacturing. Consequently, total work-in-hand was depleted marginally.

Both input and output price inflation in the service sector 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. In contrast, both input and output prices in the manufacturing industry rose at faster rates. Across both sectors, input costs increased at a marked rate that was the steepest for five months, while charges rose at a weaker, modest pace.

Comment

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

"Contrary to what we had observed in the manufacturing sector, growth in the service sector moderated slightly in December, with the headline HSBC Brazil Services PMI falling from 52.1 to 51.9. However, this is the seventeenth consecutive month that the index has remained above 50, and with companies signalling solid growth in the 'new business' component, it looks like the service sector – which accounts for almost 50% of GDP – will continue to support growth as we move into 2011."

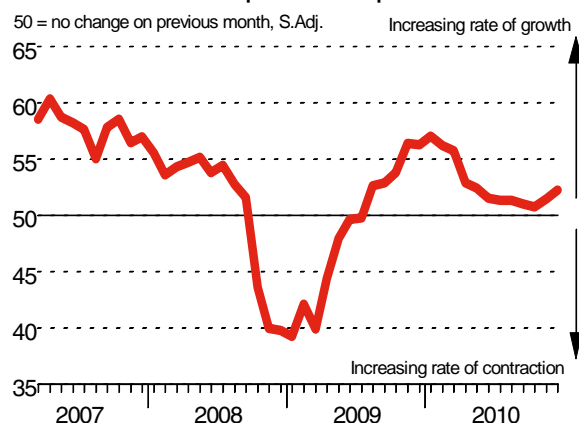
"Thanks to a solid expansion in manufacturing production, the HSBC Composite Output PMI rose to 52.3, from 51.5 in November. After moderation early in the quarter, Brazil's economy appears to have ended 2010 on an upward trend."

Key points

- Expansions in all-sector output, new orders and employment all accelerated.
- Input price inflation picked up to marked rate...
- ...while charge inflation moderated slightly.

Historical Overview

HSBC Brazil Composite Output PMI



For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone +55-11-3371-8184
Email andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email constantin.c.jancso@hsbc.com.br

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5785
Email aseidl@hsbc.com.br

Markit

Gemma Wallace, Economist
Telephone +44-1491-461-075
Email gemma.wallace@markit.com

Caroline Lumley, Markit Press Office
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

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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