

## HSBC Brazil Services PMI™ (with Composite PMI data)

All-sector output growth picked up to solid rate in January, supported by faster rise in new work.

### Summary

January PMI data pointed to an improvement in business conditions across the combined Brazilian manufacturing and service sector as output and new work both rose at sharper rates.

The headline HSBC Services Business Activity Index rose from 51.9 in December to 52.7 at the start of 2011 – its highest level for ten months. The latest figure signalled a solid expansion of Brazilian service sector output, which firms linked to increased new work. Similarly, manufacturing production growth was the sharpest for nine months. Consequently, the HSBC Brazil Composite Output Index registered its highest reading since March last year, signalling a solid expansion overall.

Incoming new business to Brazilian service providers continued to rise in January, bringing the current run of expansion to twenty months. Moreover, the pace of growth picked up to a solid rate that was the strongest since last October. Favourable market and demand conditions supported the latest increase in new work, according to panellists. Meanwhile, receipts of new orders at manufacturers rose at a robust pace. Across both sectors, new work rose strongly on average.

Reflecting a sharper rise in new business, Brazilian service firms noted a build-up of backlogs in January. However, the rate of accumulation was only marginal. Backlogs rose faster in manufacturing than in services but, overall, growth of work-in-hand was modest.

To accommodate rising business requirements, both services and manufacturers continued adding to payrolls during the latest survey period. Total employment growth was solid as a result, and the most pronounced since June last year.

Data signalled further robust rises in average input costs across Brazil's manufacturing and service sectors at the start of Q1, which companies attributed to higher wage, energy and raw material prices. However, the overall rate of input price inflation eased since December.

To part-compensate for higher input costs, service sector companies raised their tariffs in January, albeit only marginally and to a lesser extent than over the previous five months. Similarly, manufacturers' output prices rose at the slowest pace since November 2009.

### Comment

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

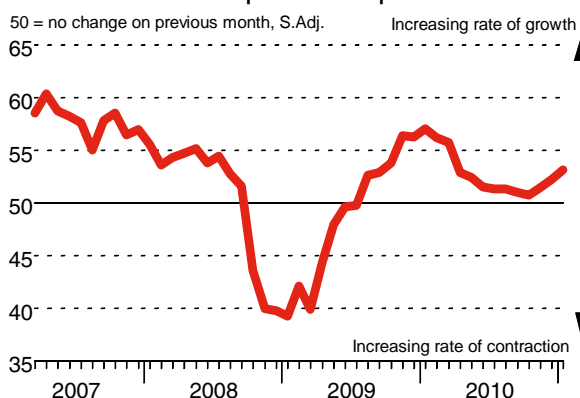
*"The HSBC Brazil Services PMI showed an improvement in business conditions across the country's services sector in January, with the activity index rising to its highest level since March 2010. Considering that the Manufacturing PMI also signalled a solid performance in January, the Composite Output Index suggests that the economy is entering 2011 with stronger momentum than was expected. In fact, the Composite Output Index too returned to its highest level since March 2010. In short, the evidence suggests that the Central Bank will face a difficult uphill battle to dampen aggregate demand and contain inflationary pressures."*

### Key points

- Total output, new order and employment growth all accelerated.
- Input price inflation eased but remained robust.
- Charges increased only slightly.

### Historical Overview

#### HSBC Brazil Composite Output Index



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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](mailto:economics@markit.com).

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