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## HSBC Brazil Services PMI™

Activity continued to rise solidly in February, but input cost inflation was fastest for over two years.

### Key findings:

- Further solid expansions in both output and new business.
- Moderate job creation.
- Input price inflation picked up sharply.

Brazilian service sector business conditions remained solid in February, supporting further expansions in output, new work and employment. Consequently, business confidence improved to its highest in eight months. However, price pressures intensified, with input cost inflation reaching a twenty-six month high.

Unmoved since January, the headline HSBC Business Activity Index registered 52.7 in February. The reading signalled another solid expansion of Brazil's service industry. Output has now risen in each of the past nineteen months. The latest increase was supported by further gains in new business, according to panellists.

Growth of incoming new work to the Brazilian service sector was solid in February, and only fractionally weaker than in January. Panel members commented on favourable market conditions. Renting & Business Activities posted the strongest rise in new business of the six monitored sub-sector.

Greater workloads resulted in another build up of unfinished business at Brazilian service providers in February. Backlogs in the sector have accumulated in six of the past eight months. However, the latest increase was only marginal.

In order to accommodate further growth of new work, service firms added to payrolls in February. This brought the current run

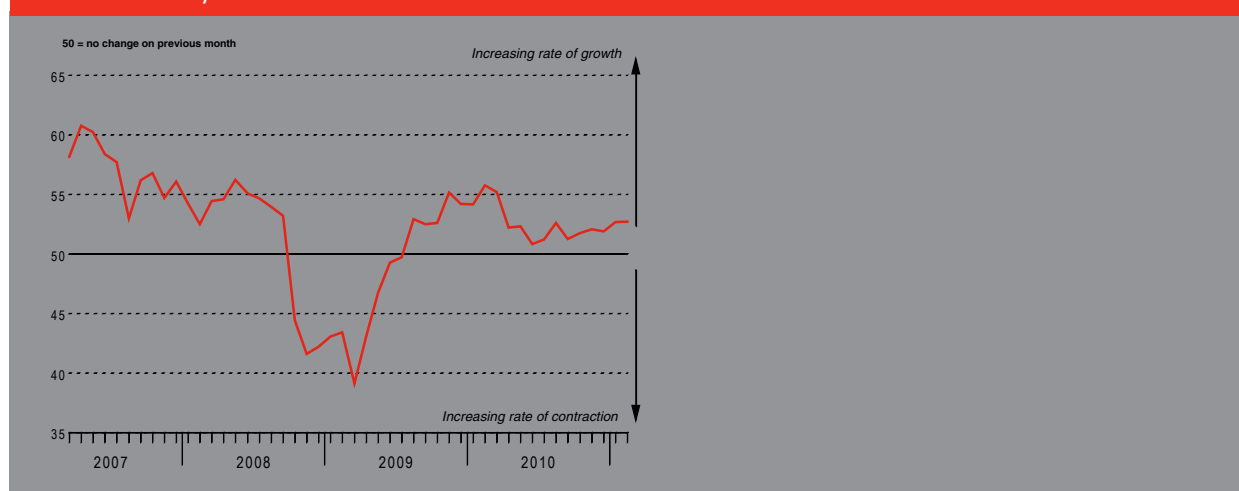
of expansion to nineteen months. The rate of increase was moderate and only marginally weaker than in January. Job creation was sharpest in Transport & Storage, followed by Renting & Business Activities.

Reflecting current favourable market conditions, as well as expectations of economic expansion, positive sentiment regarding activity improved noticeably in February. With over 53% of the survey panel anticipating output to rise over the next year, overall optimism was at its highest since last June. All six-sub-sectors recorded optimism in the latest survey period, with Postage & Telecommunications and 'Other' Services the most confident.

Driven by rising raw material and staff costs, input price inflation in the Brazilian service sector accelerated to a considerable pace in February. The increase was the sharpest for over two years and above the series trend. Renting & Business Activities and Hotels & Restaurants saw the most pronounced rises in input prices on the month.

To compensate for rising input costs, service providers further increased their tariffs during February. Output price inflation accelerated to a modest pace as a result. Sector data revealed that charge inflation was strongest in Financial Intermediation and Transport & Storage.

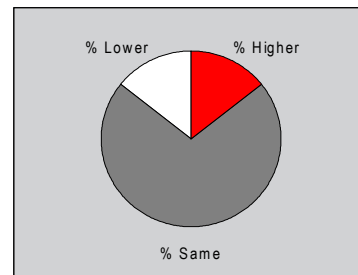
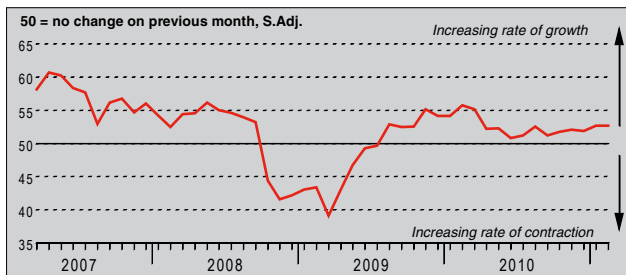
### Business Activity Index



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

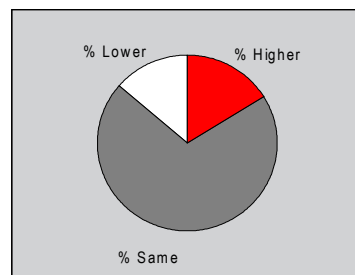
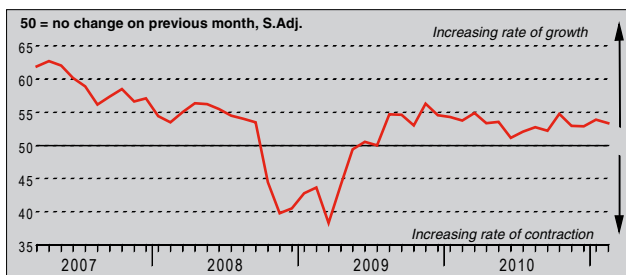
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Unmoved since January, the seasonally adjusted Business Activity Index signalled another solid rise in Brazilian service sector activity in February. The index has now registered above the no-change threshold for nineteen straight months. Firms linked higher activity to further gains in new work. Of the six monitored sub-sectors, Renting & Business Activities was the best-performing sector during the latest survey period.

## New Business Index

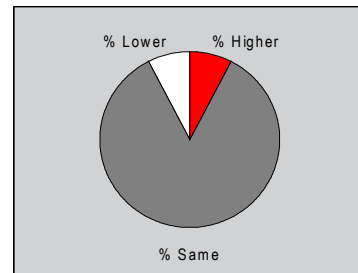
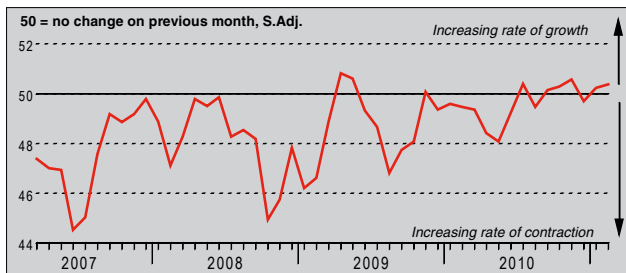
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Larger new order volumes were reported by Brazilian service providers in February. New business receipts grew solidly and at a similar pace to that recorded in January. Improved market conditions was the key factor underpinning higher levels of new work, according to respondents. The fastest rates of increase were recorded by Renting & Business Activities and 'Other' Services.

## Outstanding Business Index

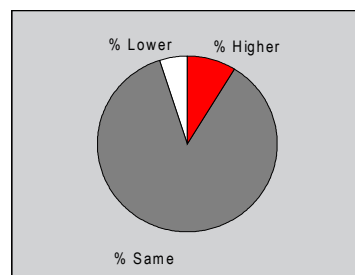
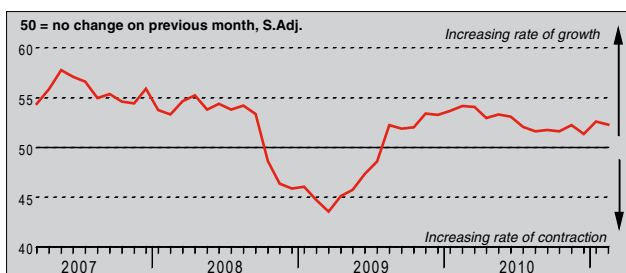
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



With workloads increasing again in February, Brazilian service companies recorded another build-up of unfinished business at their units. It was the sixth accumulation reported in the sector over the past eight months. However, the rate of growth remained only marginal. Postage & Telecommunications registered the sharpest rise in backlogs of the six sub-sectors covered by the survey.

## Employment Index

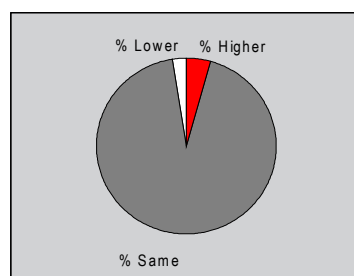
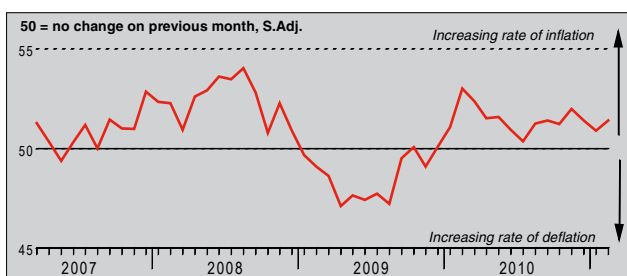
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Brazilian service providers continued to take on staff at a moderate rate during February. Job creation has now been recorded in each of the past nineteen months, although the latest increase was fractionally weaker than in January. Survey participants stated that additional personnel were hired in response to further growth of new work. Transport & Storage companies were the most prolific recruiters in February, followed by those in the Renting & Business Activities sector.

## Prices Charged Index

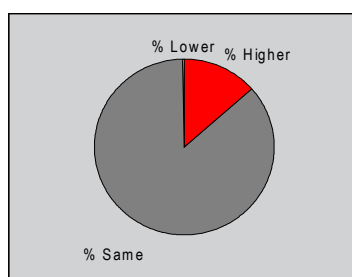
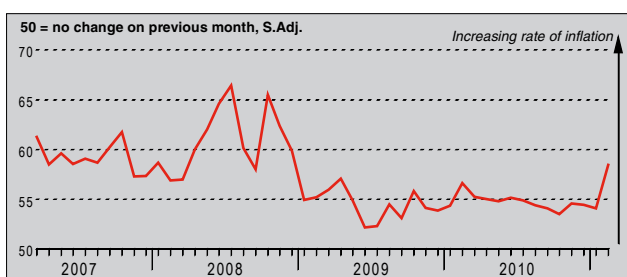
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged for Brazilian services were increased for the fifteenth successive month in February. Moreover, the rate of inflation accelerated to a modest pace that was in line with the rise recorded in December. Survey participants cited greater input costs as the principal reason for higher tariffs. Sub-sector data revealed that output price inflation was steepest in Financial Intermediation, followed by Transport & Storage.

## Input Prices Index

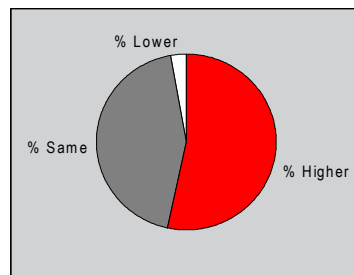
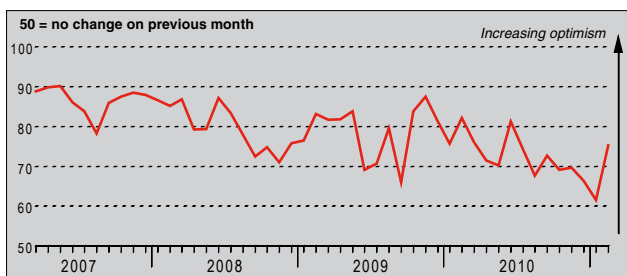
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation faced by Brazilian service providers picked up noticeably during the latest survey period. The rate of increase was substantial, with approximately 14% of panel members reporting a rise. In contrast, less than 1% saw a decrease. Companies stated that greater raw material and personnel costs drove the latest inflation. Renting & Business Activities and Hotels & Restaurants saw the strongest increases in average input costs.

## 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?



The Business Expectations Index climbed sharply in February, reaching its highest level since last June. The latest reading signalled an improvement in confidence regarding activity levels over the next year. More than 53% of respondents were optimistic about future output, commenting on expectations of economic growth. This was up from 27% at the start of 2010. Positive sentiment was recorded across all six sub-sectors, with Postage & Telecommunications and 'Other' Services the most confident.

## 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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