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## HSBC Brazil Services PMI™

Solid activity growth as new business volumes increased further.

### Key findings:

- Business activity increased for the twenty-second month running.
- Fastest rate of job creation since March 2010.
- Firms highly optimistic about future activity growth.

The Brazilian service sector continued to grow at a solid pace in May. Monitored companies received a larger volume of new business and attributed this to greater demand. Subsequently, total activity and employment both increased further during the latest survey period. In particular, employment growth was the fastest since March 2010. Firms were highly optimistic regarding future activity, with the level of sentiment at an eleven-month high.

In May, the headline seasonally adjusted HSBC Business Activity Index rose slightly to 53.3, from 53.2 recorded in April. This signalled a solid expansion in activity levels during the latest survey period, with the rate of increase broadly similar to that registered previously. Five out of the six monitored sub-sectors recorded activity growth in May, with the exception being Hotels & Restaurants.

Brazilian service providers registered a higher level of activity as new business volumes rose during May. New order growth has been recorded since June 2009. Evidence from the latest survey suggested greater demand led to increased new work intakes during the latest survey period.

Reflective of stronger demand and the subsequent increase in new business, the amount of outstanding work recorded by surveyed firms grew during May. Work-in-hand was accumulated at only a marginal pace, following a two-month period of depletion.

Employment in the Brazilian service sector rose solidly in May, extending the current period of job creation to twenty-two

months. More than one-in-ten survey respondents increased their headcounts since April, with a number of monitored companies attributing this to receiving larger new business volumes in May. Subsequently, the rate of employment growth strengthened to the fastest in fourteen months.

Meanwhile, panellists recorded a further increase in input prices during the latest survey period. The rate of input cost inflation remained strong, and was faster than that registered in April. Anecdotal evidence indicated that a wide range of inputs increased in cost during May, with salary bills particularly mentioned.

Firms passed some of their greater cost burdens on to clients by raising their prices charged in May. Higher output prices have been recorded since December 2009, with the latest increase remaining above the long-run series average. Nevertheless, the rate of output price inflation eased slightly to a three-month low, and was slower than that of input costs. With the exception of the Hotels & Restaurants category, all monitored sub-sectors raised their prices charged in May.

During May, survey respondents continued to signal optimism towards greater activity levels over the next twelve months in May. Moreover, business sentiment rose since April to an eleven-month high. Panellists commented that they anticipate further economic growth over the course of the coming year. All six monitored sub-sectors registered positive expectations. The 'Other' category was the most optimistic, while the Financial Intermediation sub-sector was the least confident.

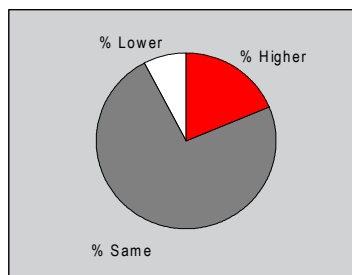
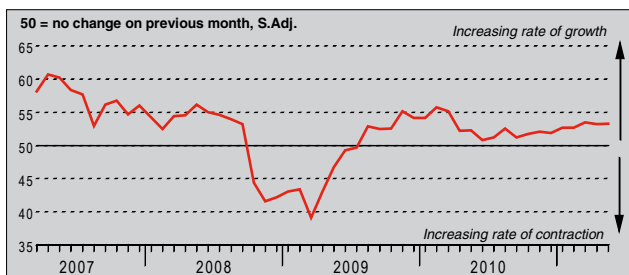
### Business Activity Index



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. Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Business Activity Index

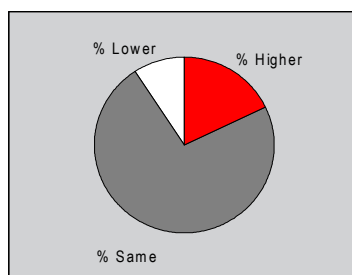
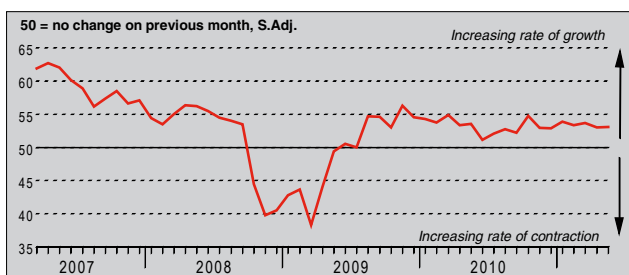
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service providers reported a greater level of business activity in May. This extended the current period of expansion to twenty-two months. Almost 19% of surveyed firms registered increased activity during the latest survey period and generally attributing growth to stronger demand. The latest rise was broadly similar to that registered in April, and remained above the long-run series average. Five out of the six monitored sub-sectors registered activity growth during May, with the exception being Hotels & Restaurants.

### New Business Index

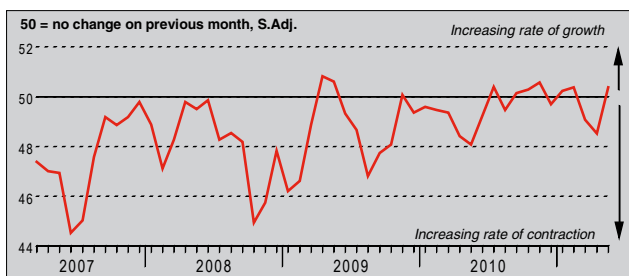
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



May's PMI data signalled a further increase in the amount of new business received by firms in Brazil's service sector, continuing the trend that began in June 2009. The rate of new order growth remained solid, albeit slightly weaker than that registered during Q1 2011. Monitored companies commented that greater demand for their services had resulted in larger new business volumes during the latest survey period.

### Outstanding Business Index

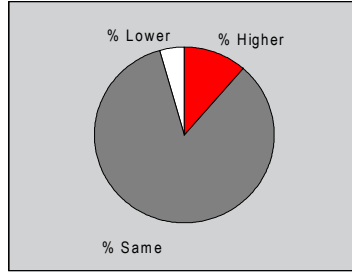
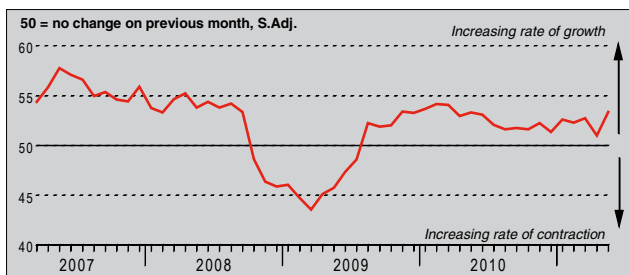
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted above the 50.0 no-change threshold in May. This signalled an accumulation of work-in-hand during the latest survey period, ending a two-month period of depletion. Nevertheless, the rate of increase was only slight. Post & Telecommunications registered the fastest rate of accumulation in May, closely followed by the Business Services sub-sector.

### Employment Index

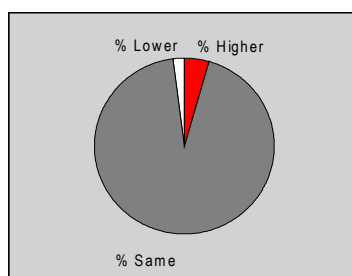
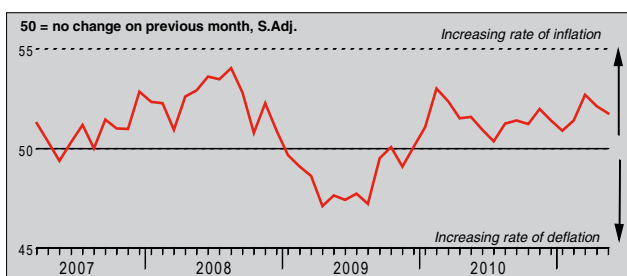
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Surveyed firms increased their headcounts for the twenty-second consecutive month in May. The rate of job creation strengthened since April to the fastest in fourteen months. Around 11% of panellists added to their payroll during the latest survey period, with anecdotal evidence suggesting additional staff were hired to cope with greater new business volumes. Five out of six monitored sub-sectors recorded employment growth in May, with this led by the Transport & Storage category. Meanwhile, Hotels & Restaurants continued to indicate job losses.

## Prices Charged Index

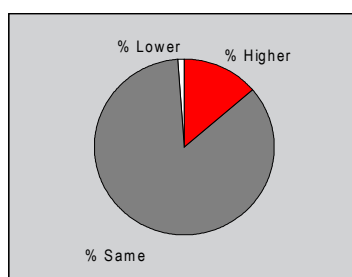
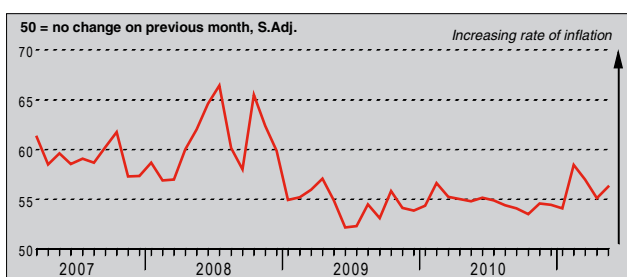
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Brazilian service providers raised their prices charged for the eighteenth month running in May. Although the rate of output price inflation weakened slightly from that recorded previously, it nonetheless remained above the long-run series average. Survey respondents commented that output prices increased as greater cost burdens, particularly due to higher salary bills, were passed on to clients. The Post & Telecommunications sub-sector raised their prices to the greatest extent of all areas in May.

## Input Prices Index

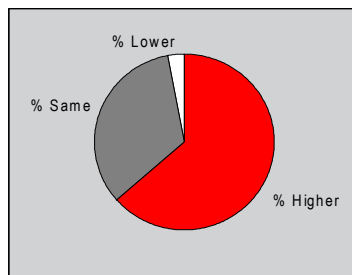
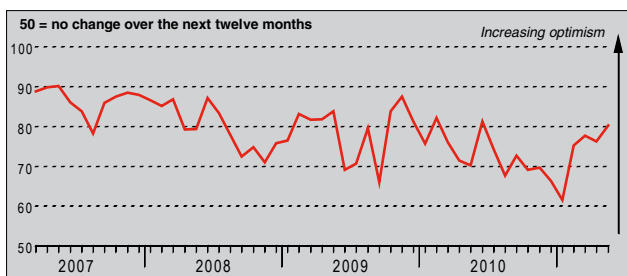
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by companies operating in Brazil's service sector increased strongly during May. Higher input prices have been recorded by panellists in every survey period since the series began in March 2007. Almost 14% of respondents indicated cost burdens increased in May, with a number of monitored companies attributing this to greater demand for inputs. A wide range of inputs were reported as increasing in cost during the latest survey period. Staff salaries were particularly mentioned by panellists.

## 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?



Brazilian service providers remained optimistic over future activity growth in May. Moreover, the level of business sentiment rose since the previous survey period, to an eleven-month high. Panellists were confident that demand, and consequently new business, will increase further over the next twelve months as economic growth is expected to continue. All six monitored sub-sectors indicated optimism in May, with the strongest recorded in the 'Other' category. Meanwhile, the weakest was registered in the Financial Intermediation sub-sector.

## 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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