HSBC *Purchasing Managers' Index*™ Press Release

Embargoed until: 10:00 (SAO PAULO), 3 June 2011

compiled by markit

HSBC Brazil Services PMI™ (with Composite PMI data)

All-sector output growth remained modest in May, despite accelerating

Summary

May *PMI™* data signalled a further improvement in Brazil private sector output. At 53.0, the seasonally adjusted HSBC Composite Output Index posted above the 50.0 no-change threshold that separates growth from contraction. Moreover, the latest index reading was higher than that registered in April (52.5), therefore indicating a faster rate of growth during the latest survey period.

Output increased in both the manufacturing and services sectors in May. Brazilian manufacturers recorded a further rise in production, as has been the case since November 2010, whilst activity growth registered by service providers remained above the long-run series average. The HSBC Services Business Activity Index reached 53.3 in May, up slightly from 53.2 in April.

Surveyed firms attributed the latest rise in output levels to greater demand in May. Subsequently, the volume of new business received by private companies operating in Brazil increased further during the latest survey period. That said, manufacturers registered a marginal fall in new work intakes for the second consecutive month. Meanwhile, in the service sector, new business volumes increased solidly.

The amount of outstanding work recorded by Brazilian service providers increased slightly in May. Overall, private sector firms (including manufacturers and service providers) registered only a marginal accumulation of backlogs.

Employment in Brazil's private sector rose solidly during the latest survey period. Job creation has now been signalled since August 2009, with employment growth remaining above the long-run series average. Service providers added to their payrolls at a faster pace than that of manufacturers. The service sector's rate of jobs growth was the strongest since March 2010.

In May, input prices recorded in the Brazilian private sector as a whole increased for the twenty-second consecutive month. The rate of input price inflation remained strong, with firms operating in the service sector registering a slightly stronger rise in cost burdens than those in manufacturing.

Subsequently, monitored companies raised their prices charged in May. Manufacturers increased output prices to a greater extent than service providers, but rates of inflation were at four- and three-month lows respectively.

Comment

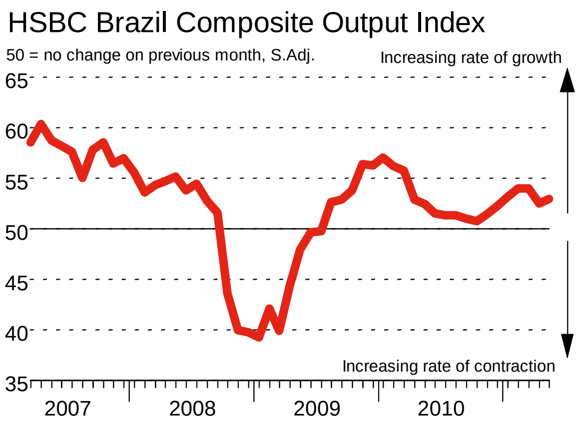
Commenting on the Brazil Services and Composite PMI data, Andre Loes, Chief Economist, Brazil, at HSBC said:

"The May HSBC Brazil Services PMI advanced slightly to 53.3, from 53.2 in April, signalling that the services sector continued to expand at a robust pace. This was the services sector's twenty-second consecutive month of expansion. The Employment Index rebounded strongly from the decline observed in April, and indicated that services companies were hiring at the fastest pace since March 2010. This reflected a strong up-tick of the Business Expectations Index, which returned to its highest level since June of last year. In short, the apparent moderation of activity in the manufacturing sector is not being matched by a similar movement in the services sector."

Key points

- Total output increased for twenty-two consecutive months in May, led by the service sector.
- Overall new orders rose further, but manufacturers registered a fractional fall in new work.
- Job creation remained modest.

Historical Overview



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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.

The *Purchasing Managers' Index™* (*PMI™*) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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.

HSBC:

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Purchasing Managers' Index™ (*PMI™*) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.