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HSBC Brazil Services PMI™

New business growth remained solid, despite easing to nine-month low in June.

Key findings:

- Volume of new orders increased for twenty-fifth month running.
- Job creation only modest.
- Firms remained confident over future activity.

Business conditions in the Brazilian service sector improved further in June. Both activity and new business levels rose during the latest survey period, with firms reporting greater client demand. That said, the rates of expansion eased to six- and nine-month lows respectively. Nevertheless, panellists were optimistic over future activity in the coming twelve months, as economic growth is expected to continue.

The seasonally adjusted HSBC Business Activity Index registered above the 50.0 no-change threshold that separates growth from contraction in June. At 52.1, the index signalled that activity levels at Brazilian service providers increased solidly during the latest survey period. However, the rate of expansion eased to the weakest since last December, with the index falling from 53.3 in May.

Firms attributed the latest rise in activity to greater demand for their services. Subsequently, monitored companies reported a rise in the volume of new business received during June. New order growth remained solid and extended the current period of expansion to twenty-five months. The latest increase slowed since the previous survey period however, and was below the long-run series average.

The Post & Telecommunications sector registered the fastest rate of new order growth in June, closely followed by Rental & Business Activities. In contrast, the Hotels & Restaurants category continued to report declining new business during the latest survey period.

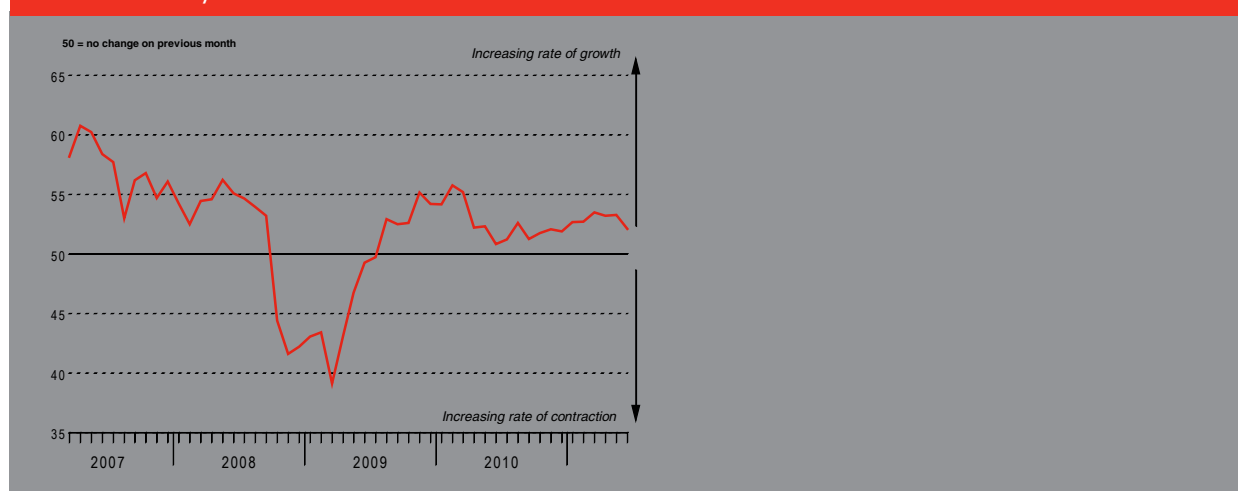
Reflective of larger new business volumes and greater activity, employment in Brazil's service sector increased during the latest survey period. Job creation has been recorded since August 2009, but the latest rise was modest and below the average for the series.

Meanwhile, the level of work-in-hand at surveyed companies fell during the latest survey period. Although the decrease was only marginal, it reversed the slight accumulation recorded in May. Anecdotal evidence suggested that levels of outstanding business were depleted as new business growth weakened during June.

Input prices faced by Brazilian service providers increased further in June, with monitored companies particularly mentioning fuel as having risen in cost. Input price inflation remained solid, despite easing to an eight-month low. Panellists passed on parts of their greater cost burdens to clients by raising their output tariffs in June. However, the rise in the average price charged was only modest and the weakest since July 2010.

Survey respondents remained confident regarding activity over the coming year in June. Over 61% of panellists predict higher activity levels, with the overall degree of confidence similar to that recorded in the previous survey period. Evidence from the latest survey signalled that firms anticipate economic growth to continue and to boost new business volumes further. All six monitored sectors were optimistic, with the 'Other' category the most confident.

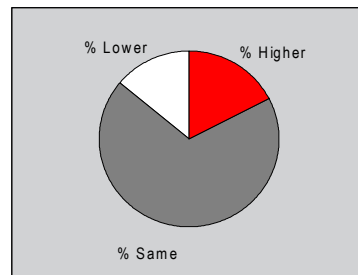
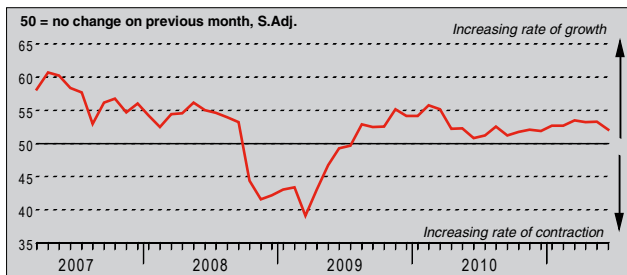
Business Activity Index



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

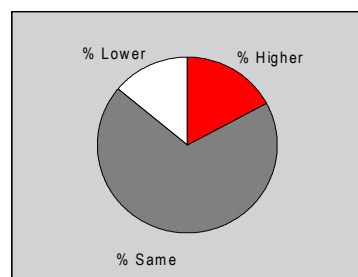
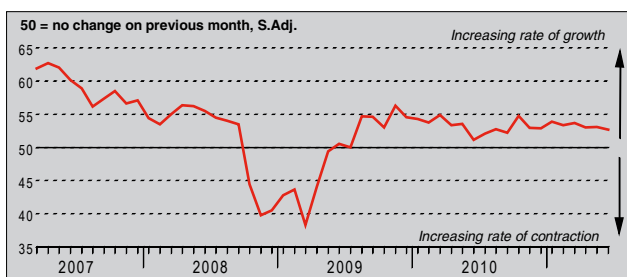
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service providers reported a higher level of activity in June, continuing the trend that has been recorded since August 2009. Over 17% of survey respondents registered activity growth and generally commented on greater demand for their services. That said, the rate of increase eased further from March's peak to a six-month low, with 14% of panellists recording lower activity than in May. The Renting & Business Services and Post & Telecommunications sectors posted strong rates of activity growth during the latest survey period.

New Business Index

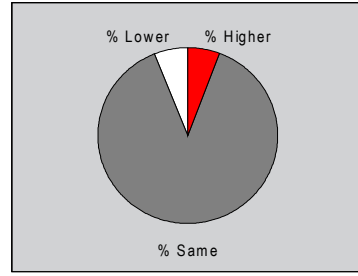
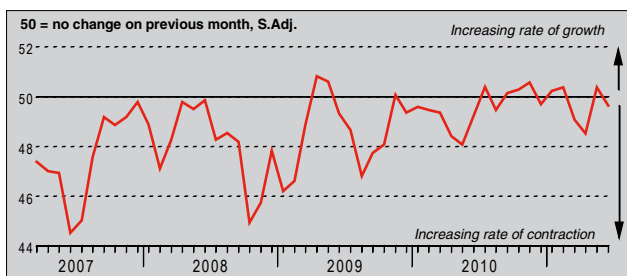
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by firms operating in the Brazilian service sector increased for the twenty-fifth month running in June. Anecdotal evidence attributed the latest rise in new orders to greater demand. Moreover, a number of panellists reported new client wins during the latest survey period. However, the rate of growth slowed since May, to a nine-month low. Notably, monitored companies in the Hotels & Restaurants sector continued to register lower new work intakes.

Outstanding Business Index

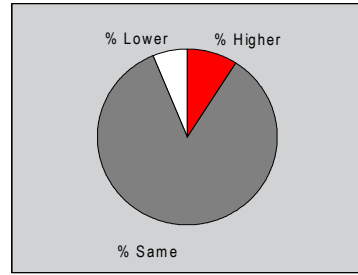
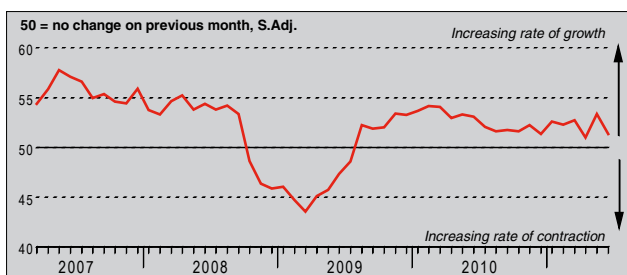
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



In contrast to the accumulation registered in the previous survey period, the level of work-in-hand at Brazilian service providers fell during June. The seasonally adjusted Outstanding Business Index posted marginally below the 50.0 no-change threshold and indicated that the depletion of backlogs was only fractional. Approximately 6% of survey respondents reported a lower level of outstanding business in June, and generally linking the fall to weaker new business growth.

Employment Index

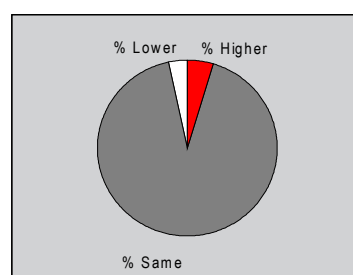
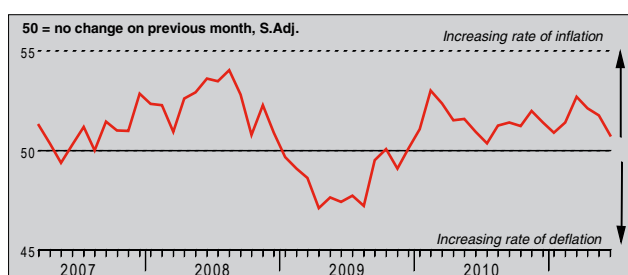
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in Brazil's service sector increased further during June. Surveyed firms reported that additional staff were hired as new business and activity growth continued. Although job creation has been recorded since August 2009, the latest expansion was only modest and below the long-run series average. With the exception of Hotels & Restaurants, which reported further job losses, the remaining five monitored sectors registered employment growth in June.

Prices Charged Index

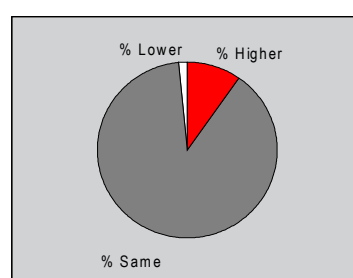
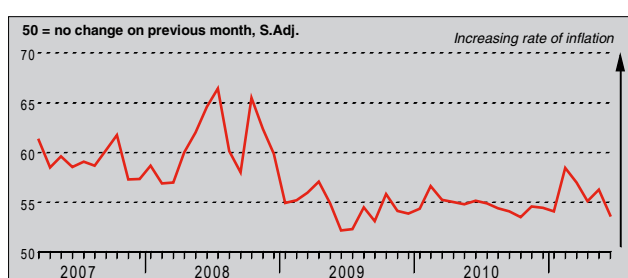
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The average price charged by companies in Brazil's service sector increased only modestly in June. The seasonally adjusted Prices Charged Index fell for the third successive month, closer to the 50.0 no-change threshold that separates inflation from deflation. Moreover, the latest rise in output prices was the weakest since last July. Survey respondents who increased their charges in June generally commented on passing greater cost burdens to clients.

Input Prices Index

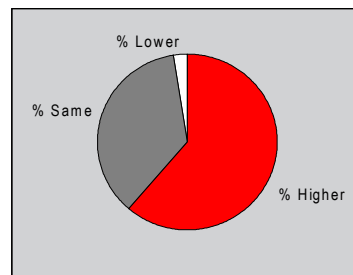
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



In June, surveyed firms recorded higher input prices, as has been the case in each survey period since data collection began in March 2007. Panellists registered increased prices for a wide range of inputs during June, but particularly highlighted fuel as having risen in cost. Despite the rate of input price inflation remaining solid overall, it slowed to the weakest in eight months.

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?



Expectations regarding activity levels in the coming year remained optimistic in June. Over 61% of survey respondents anticipate activity to increase, compared to the 3% that predict declines. Evidence from the latest survey suggested that panellists expect further economic growth and greater new business volumes over the next twelve months. Moreover, all six monitored sectors were confident in June, with the 'Other' category registering the highest level of business sentiment.

Notes on the Data and Method of Presentation

The Brazil Services *PMI*TM 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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