

HSBC Brazil Services PMI™ (with Composite PMI data)

New order growth across manufacturing and services weakened to near two-year low in June

Summary

The Brazilian private sector grew further during June, extending the current period of expansion to twenty-three months. This was signalled by the seasonally adjusted HSBC Composite Output Index posting above the 50.0 no-change level that separates growth from contraction during the latest survey period. However, the index fell from 53.0 in May, to 51.1, and indicated only a modest increase in overall output. Moreover, this was the slowest monthly rise in eight months.

Business activity in the service sector rose solidly and for the twenty-third successive month. The HSBC Services Business Activity Index registered 52.1 in June, down from 53.3 in May. In contrast, manufacturing output fell modestly, ending the period of expansion that began November 2010.

Firms attributed the latest overall rise in output to greater client demand in June. The volume of new orders received by private sector companies increased modestly, with this largely reflective of new business growth recorded by service providers. New work intakes at manufacturers fell for the third month running, however. Subsequently, the rate of increase registered in the private sector as a whole eased since the previous survey period to a near two-year low.

The number of people employed in the Brazilian private sector increased only marginally during June. Survey respondents in the service sector recorded moderate job creation, while manufacturers registered job losses for the first time in almost two years.

Outstanding business fell at both manufacturing companies and service providers during the latest survey period. Overall, the decrease was only modest.

In June, input costs faced by firms in Brazil's private sector rose for the twenty-third consecutive month. The latest rate of inflation remained strong, despite being the weakest since January and below the long-run series average.

Panellists passed on some of their larger cost burdens to clients by raising their output charges during the latest survey period. That said, prices charged rose at the slowest rate since December 2009. Both service providers and manufacturers raised their output prices only marginally in June.

Comment

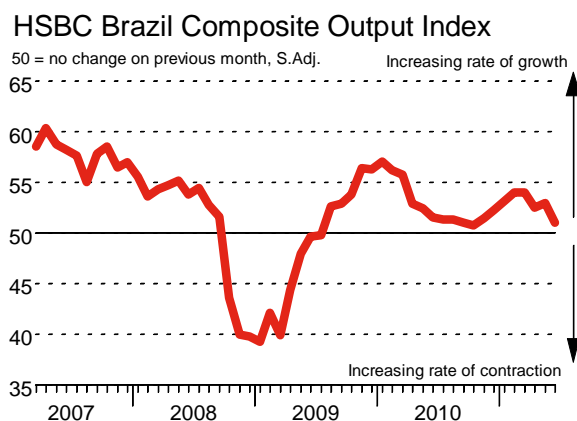
Commenting on the Brazil Services and Composite PMI data, Andre Loes, Chief Economist, Brazil, at HSBC said:

"The June HSBC Brazil Services PMI index showed that the sector expanded for the twenty-third consecutive month, albeit at the slowest rate since December of last year. The headline index receded from 53.3 in May, to 52.1. Except for the Outstanding Business Index, all components of the PMI survey remained above the 50.0 watermark. Business expectations retreated only slightly relative to May, and remains close to the eleven-month high registered in that month. On the inflation front, the good news is that the Input Prices Index retreated, while the Prices Charged Index returned to its lowest level since July of last year. Nevertheless, the latter remained slightly above the 50.0 mark, indicating that service inflation remains positive. Overall, the Services PMI seems consistent with perceptions that although the economy continues to expand at a solid pace, growth softened to a more sustainable rate."

Key points

- Solid rise in new business volumes at service providers, but further fall at manufacturers.
- Total output growth slowest since November 2010.
- Marginal rate of job creation in June.

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.

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