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HSBC Brazil Services PMI™

Activity growth strengthens to fastest pace since March 2010

Key findings:

- Higher activity levels reflective of strong rise in new business volumes
- Solid rate of job creation in July
- Service providers remain optimistic about future business activity

July PMI data signalled a further improvement in Brazilian service sector business conditions. Both activity and new business increased solidly during the latest survey period, with panellists citing greater client demand. Notably, the rates of growth both strengthened since June to the fastest in 16 months respectively. Employment also rose at a faster pace in July. Overall, firms were optimistic that expansion will continue over the coming year, though the level of confidence eased slightly since the previous survey period.

At 53.7, the headline HSBC Brazil Services Business Activity Index posted above the 50.0 no-change threshold that separates growth from contraction in July. This signalled a solid rise in activity levels during the latest survey period. The rate of expansion strengthened since June (52.1) to the fastest since March 2010, and was above the long-run series average.

Firms attributed activity growth to greater client demand during the latest survey period. Subsequently, the volume of new business received by Brazilian service providers increased further, as has been recorded in each month since June 2009. Almost 19% of respondents reported new order growth during the latest survey period, compared to 10% that registered a decline, with new business growth quickening to the fastest since March 2010.

In contrast to the slight depletion reported in June, panellists recorded a higher level of outstanding work in July. Anecdotal evidence provided by survey respondents attributed the

accumulation of backlogs to further growth in new business volumes.

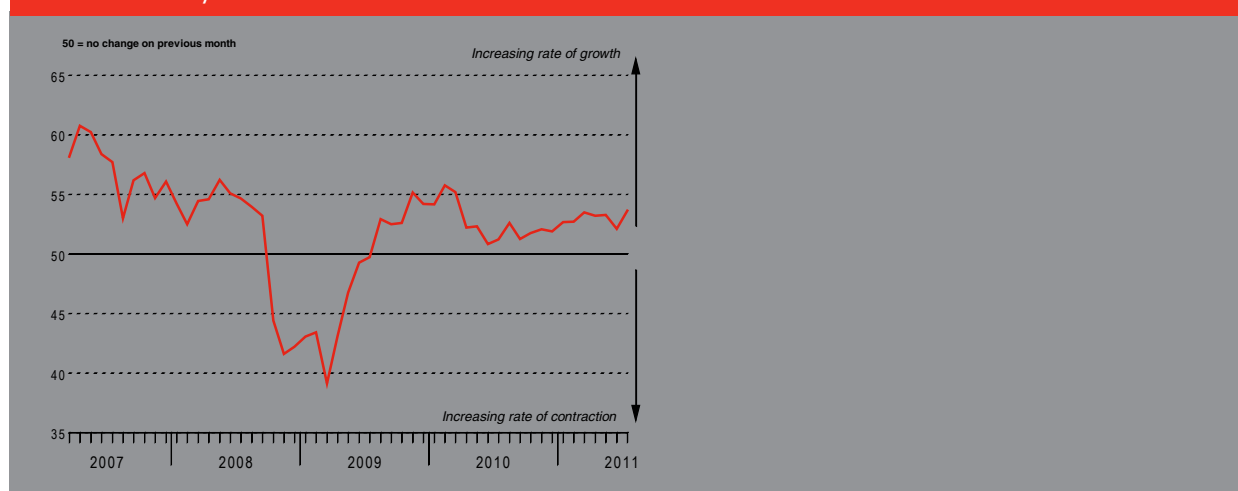
Meanwhile, firms operating in Brazil's service sector hired additional staff in July. Monitored companies commented that they raised their staffing levels to cope with greater client demand and increases in new business. On the whole, employment growth was solid and faster than the long-run series average.

Brazilian service providers recorded higher input prices during July, continuing the trend that has been registered since data collection began in March 2007. Although the rate of input cost inflation strengthened since June, it nonetheless remained below the historic trend for the series.

Panellists raised their output charges for the twentieth consecutive month in July. Evidence from the latest survey suggested that output charges rose as firms passed on greater cost burdens to clients. The latest rise in output prices was moderate and slightly faster than that recorded in June, but nevertheless remained weaker than that of input costs.

Companies in Brazil's service sector remained optimistic regarding future business activity levels in July. Over 59% of survey respondents anticipate activity growth in the next 12 months, while 2% forecast a contraction. Panellists expect that both demand and economic growth will continue over the coming year, which will further support new business and activity levels.

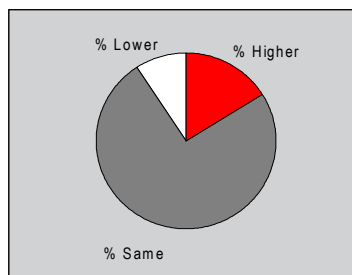
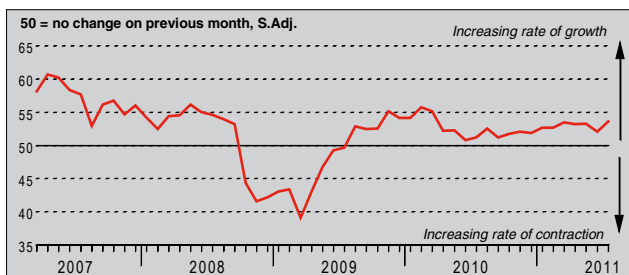
Business Activity Index



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

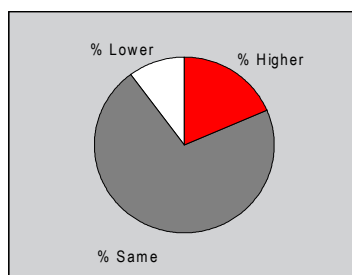
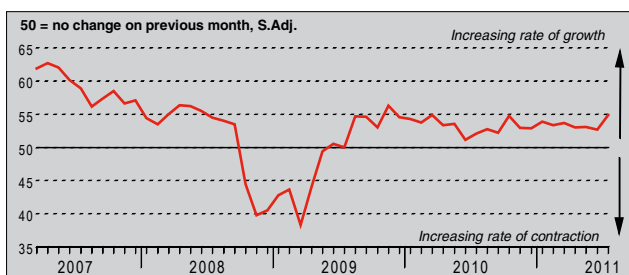
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service providers recorded a higher level of activity in July, extending the current period of growth to two years. Over 16% of surveyed firms reported increased activity, compared to 9% that registered a decline, and generally linked this to greater client demand. Subsequently, the latest rise was solid and the fastest since March 2010. Five out of the six monitored sub-sectors registered activity growth in July, with Hotels & Restaurants the only exception.

New Business Index

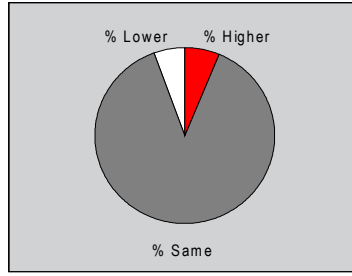
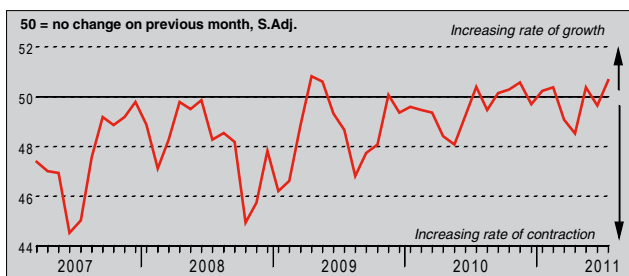
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by firms operating in Brazil's service sector increased solidly in July. Notably, the rate of new order growth was above the long-run series average and the fastest in 16 months. Anecdotal evidence provided by panellists attributed the rise in new business to greater demand and new client wins during the latest survey period.

Outstanding Business Index

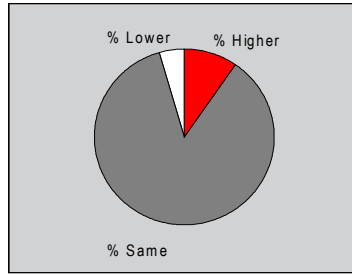
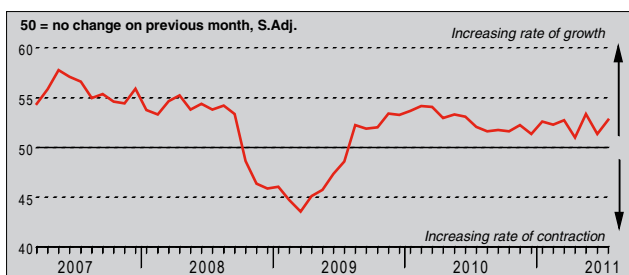
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



In contrast to the slight depletion reported in June, backlogs of work accumulated at surveyed firms during July. This was signalled by the seasonally adjusted Outstanding Business Index posting above the 50.0 no-change threshold that separates growth from contraction in the latest survey period. Panellists commented that the level of work-in-hand increased as new business growth continued.

Employment Index

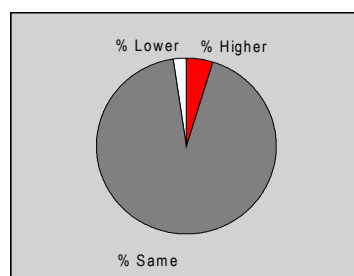
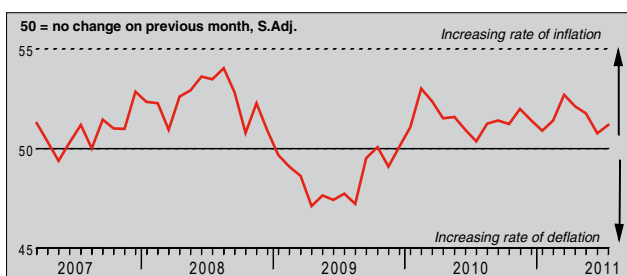
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Monitored companies operating in the Brazilian service sector employed additional staff in July. Almost 10% of respondents reported higher staffing levels during the latest survey period, and generally linked this to larger new business volumes. Overall, job creation was solid and stronger than that recorded in June.

Prices Charged Index

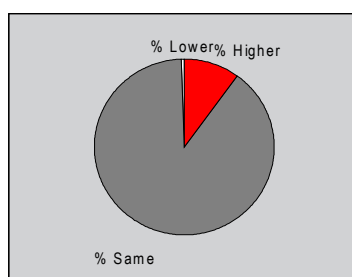
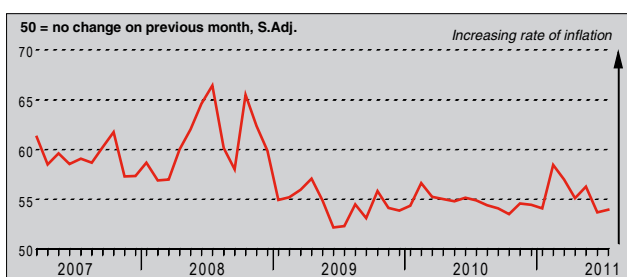
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The average price charged by surveyed firms increased in July, as has been the case since December 2009. The rate of output price inflation was moderate, fractionally faster than that registered in June, and slightly above the long-run series trend. Anecdotal evidence suggested that respondents raised their charges to pass on part of their greater cost burdens to clients.

Input Prices Index

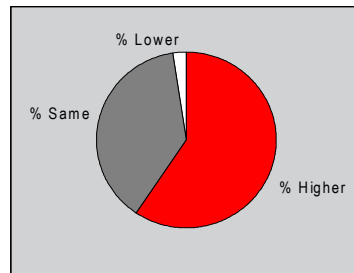
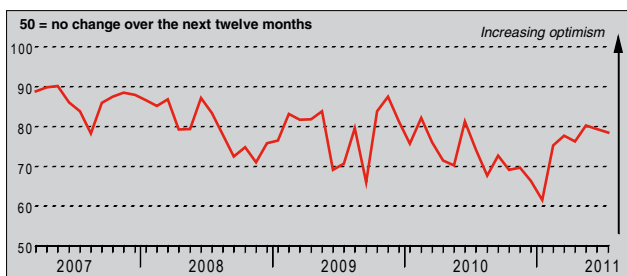
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by companies operating in Brazil's service sector increased solidly during July. Exactly 10% of respondents reported higher input prices, compared with less than 1% that recorded lower costs, and commented that prices increased across a wide range of goods. Although the rate of input cost inflation strengthened since the previous survey period, it remained below the long-run series average.

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?



Future expectations of Brazilian service providers regarding activity levels in 12 months' time remained optimistic in July. Business sentiment continued to be strong, but was nonetheless slightly lower than the long-run series average. Monitored companies were confident that both demand and economic growth will continue over the course of the next year, and lead to larger new business volumes.

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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