

HSBC Brazil Services PMI™ (with Composite PMI data)

Overall private sector output growth strengthens slightly in July

Summary

The Brazilian private sector grew further in July, as signalled by the HSBC Composite Output Index posting above the 50.0 no-change threshold that separates growth from contraction. At 51.4, the latest index reading indicated a modest expansion in output levels during July, with the rate of increase slightly faster than that recorded in June (51.1).

The marginally stronger increase in overall output largely reflected solid activity growth in services, as manufacturing production declined for the second consecutive month in July. The HSBC Services Business Activity Index registered 53.7 during the latest survey period, up from 52.1 previously and the highest posting since March 2010.

Brazilian service providers generally linked the rise in activity to new business wins in July. The volume of new orders received by surveyed firms grew strongly and at the fastest pace in 16 months. Meanwhile, the total amount of new business received across the private sector as a whole increased only modestly during the latest survey period. That said, the rate of new order growth was faster than June's 23-month low.

The amount of outstanding work at firms in Brazil's private sector fell for the second consecutive month during July, but the latest decline was only marginal. Brazilian manufacturers registered a further depletion of backlogs, with the rate of decrease the fastest since April 2009. In contrast, service providers reported a modest accumulation of outstanding business in July.

Employment in the Brazilian service sector increased solidly during July. Panellists commented that additional staff were hired in line with greater new business volumes. However, the rate of job creation recorded across the private sector as a whole was only modest, reflecting a marginal fall in manufacturing employment.

Input prices reported by Brazilian service providers increased solidly in July, and at a faster pace than in June. Notably, the rate of input cost inflation registered in the service sector was stronger than that reported in manufacturing. Monitored companies in Brazil's private sector passed on part of greater cost burdens to clients by raising their prices charged in July.

Comment

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

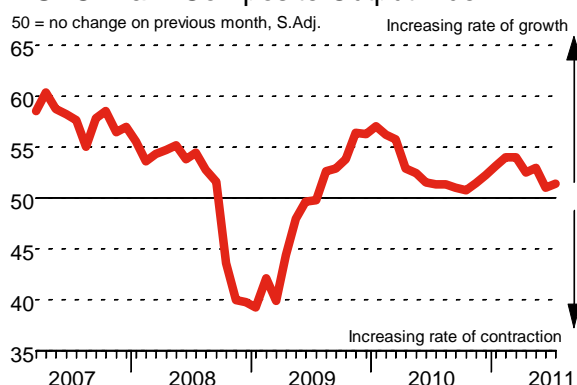
"The July HSBC Brazil Services PMI indicates that the divergence between the service and manufacturing sectors is increasing. The July HSBC Brazil Manufacturing PMI fell to its lowest level since May 2009 and stayed below the 50.0 mark for the second consecutive month. The Services PMI, on the other hand, returned to its strongest level since March 2010, rising to 53.7 (from 52.1 in June). This divergence, in our view, is probably a reflex of the impact of BRL strength on the competitiveness of Brazil's manufacturing sector, and could possibly help explain the urgency with which the government implemented their latest measures aimed at curbing further BRL appreciation."

Key points

- Total activity increases modestly, largely reflecting solid growth in services
- New business growth at Brazilian service providers improves to 16-month high in July
- Modest rate of overall job creation

Historical Overview

HSBC Brazil Composite Output Index



For further information, please contact:

HSBC

Andre Loes, Chief Economist, Brazil
Telephone +55-11-3371-8184
Email andre.a.loes@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email constantin.c.jancso@hsbc.com.br

Antonio Seidl, Senior Press Officer, HSBC Bank Brazil
Telephone +55-11-3847-5785
Email aseidl@hsbc.com.br

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7264-6283 / +44-782-7891-072
Email rachel.harling@markit.com

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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