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HSBC Brazil Services PMI™

New business grows at weakest pace since June 2010

Key findings:

- Volumes of new business increase solidly, albeit at sharply slower rate than in July
- Further expansion in activity during August
- Service providers are optimistic over future activity, but confidence slips to six-month low

Business conditions in the Brazilian service sector improved further in August, with both activity and new business levels increasing. Firms generally attributed expansion to greater client demand. That said, the rates of growth both slowed since the previous survey period. In particular, the latest rise in new business volumes was the weakest in 14 months. Brazilian service providers remained optimistic regarding activity in twelve months' time, but confidence was at its lowest level since February.

The headline seasonally adjusted Business Activity Index posted above the 50.0 no-change threshold that separates growth from contraction in August. At 52.2, the latest index reading signalled a solid expansion in activity, continuing the trend that has been recorded since August 2009. However, down from 53.7 in July, the rate of growth eased since the previous survey period and was broadly in line with the long-run series average.

Four out of the six monitored sectors registered activity growth in August, with the strongest gain in Post & Telecommunications. The Hotels & Restaurants and 'Other' categories were the only sectors to report a fall in activity during the latest survey period.

Brazilian service providers attributed the rise in activity to greater demand. Correspondingly, the volume of new business received by firms increased further during August. A number of respondents commented on new client wins during the latest survey period. Although new business growth remained solid overall, it was the slowest in 14 months and below the historic

series average.

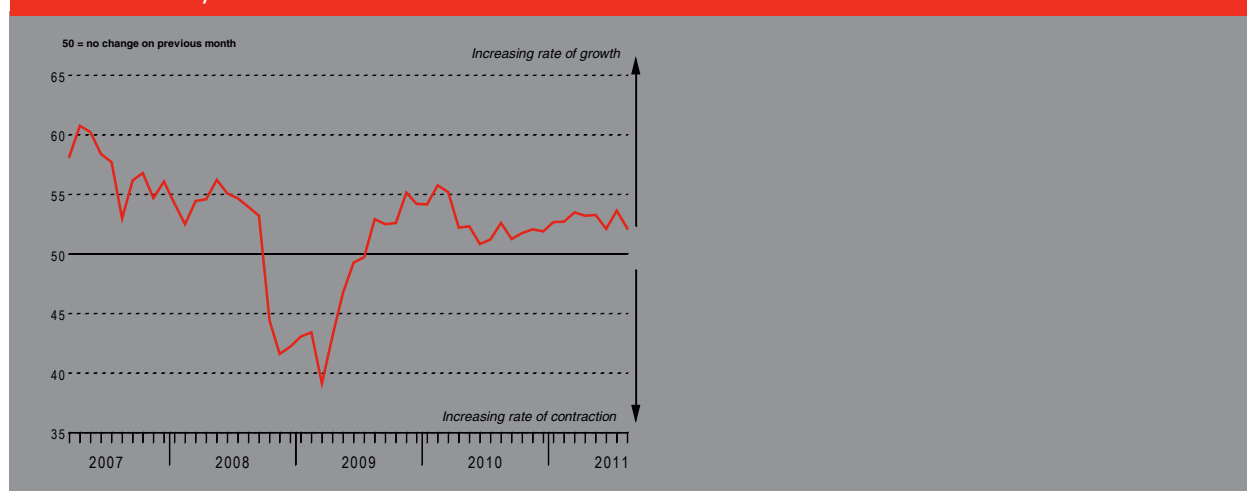
Reflective of the rise in new business volumes, outstanding work at surveyed firms increased in August. This is the second consecutive month where panellists have accumulated backlogs. The latest increase in work-in-hand remained marginal, however.

Employment in Brazil's service sector increased during the latest survey period. Around 10% of firms hired additional staff, compared with 3% that reduced their headcounts, and generally linked employment growth to gains in new business. The rate of job creation was broadly unchanged from July, and indicated a solid expansion in staffing levels.

Monitored companies reported higher input costs in August, as has been the case since data collection began in March 2007. The rate of input price inflation remained solid, albeit below the long-run series average. Firms suggested that a wide range of inputs increased in price during August, with metals particularly mentioned. Brazilian service providers passed on greater cost burdens to clients by raising their output charges during the latest survey period.

Business sentiment regarding future activity in the Brazilian service sector was positive in August. Firms were optimistic that demand will increase further over the course of the next year. Moreover, a number of respondents also forecast returns on recent investments. Nevertheless, the level of confidence in future activity growth was at a six-month low.

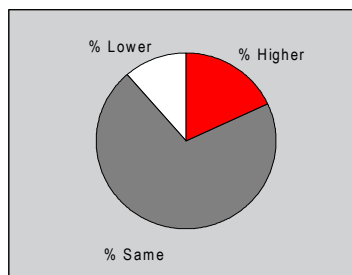
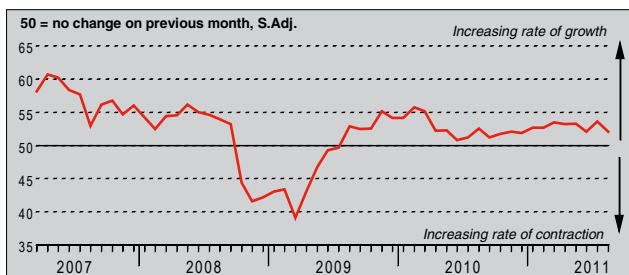
Business Activity Index



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

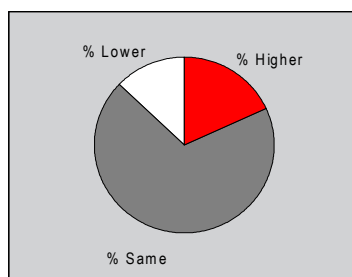
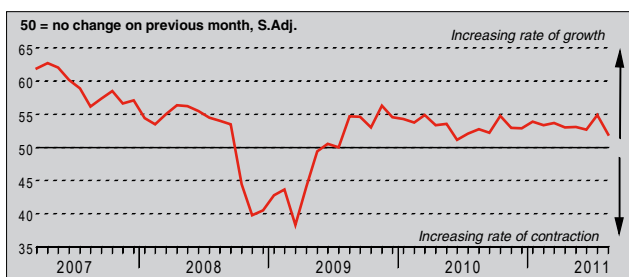
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity at Brazilian service providers increased for the twenty-fifth consecutive month in August. Around 18% of panellists recorded higher activity levels compared with the previous survey period, and generally linked the gains to greater demand. Nevertheless, the rate of growth eased since July, and was broadly in line with the long-run series average. Activity increased in four out of the six monitored sectors in August, with the exceptions being Hotels & Restaurants and 'Other' categories.

New Business Index

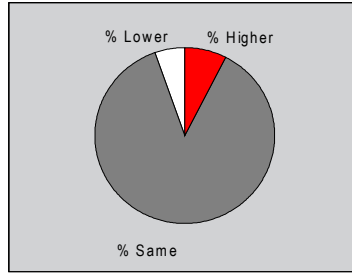
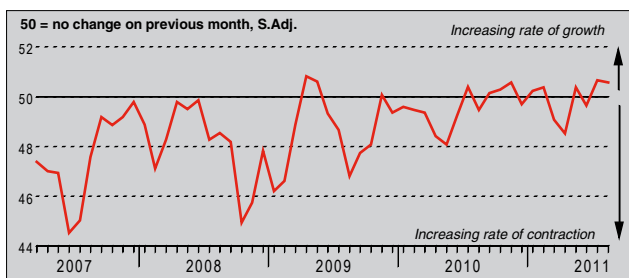
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Firms operating in Brazil's service sector received a greater volume of new business in August, extending the current period of expansion that started in June 2009. Anecdotal evidence attributed the latest increase to higher demand and new client wins. That said, the seasonally adjusted New Business Index fell sharply from July to a 14-month low.

Outstanding Business Index

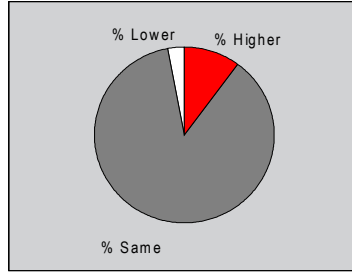
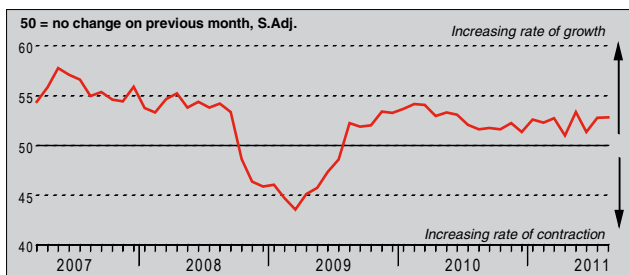
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Work-in-hand increased during August, as indicated by the seasonally adjusted Outstanding Business Index posting above the 50.0 no-change level that separates accumulation from depletion. Almost 8% of respondents reported additional outstanding business, compared with 5% that registered a reduction. Subsequently, the overall rise in backlogs remained marginal.

Employment Index

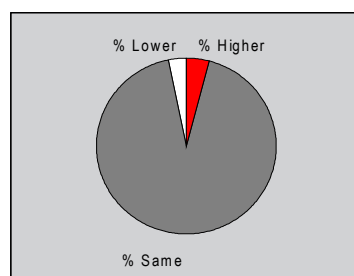
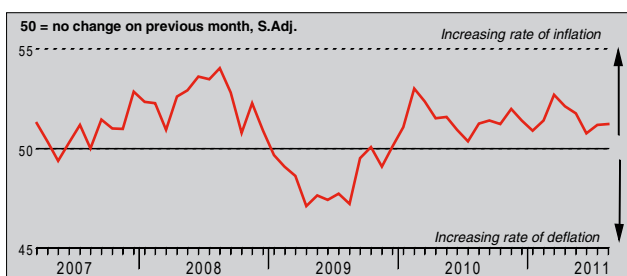
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in Brazil's service sector increased solidly in August, with the rate of job creation unchanged from that recorded in July. Around 10% of surveyed firms hired additional staff, and largely commented that this was in line with new business growth. The Financial Intermediation sector posted the strongest rise in staffing levels during the latest survey period, while Hotels & Restaurants was the only sector to record job losses.

Prices Charged Index

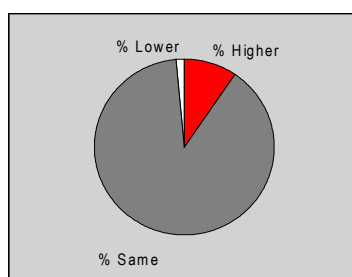
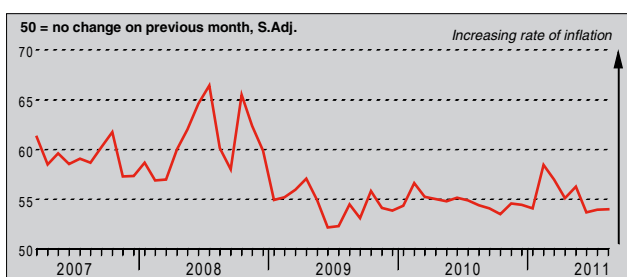
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The average price charged by Brazilian service providers rose modestly during August. Higher output charges have been registered in each month since December 2009. The rate of output price inflation was unchanged from that registered in the previous survey period, and broadly similar to the long-run series average.

Input Prices Index

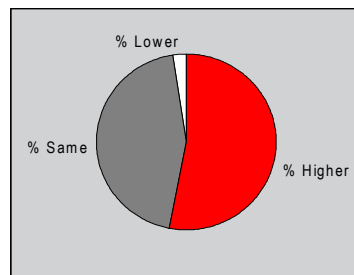
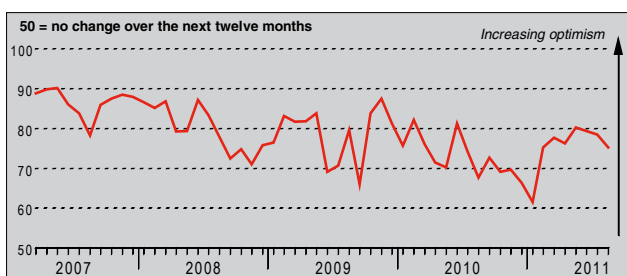
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by companies operating in Brazil's service sector increased further in August, continuing the trend that has been registered since data collection began in March 2007. The latest rate of input price inflation remained solid, but was nonetheless below the historic average. Surveyed firms reported a wide range of inputs as having increased in cost, with metals particularly mentioned.

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?



Brazilian service providers were optimistic regarding future business activity in August. Over half of survey respondents anticipate activity to be higher in twelve months' time, compared with less than 3% that forecast a fall. Firms largely predict that demand growth will continue over the course of the next year. Moreover, a number of firms also expect returns from recent investments. Overall confidence in future activity growth, however, fell to the lowest level since February.

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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