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## HSBC Brazil Services PMI™

Activity increases at marginal pace in September

### Key findings:

- Business activity rises at weakest rate in current 26-month sequence of growth
- New business growth remains below long-run series average
- Confidence regarding future activity growth falls to eight-month low

Brazil's service sector business conditions improved further in September, albeit at a weaker rate than in August. Both activity and new business levels rose during the latest survey period, with panellists generally commenting on greater client demand. However, the rate of activity growth was only marginal and the weakest in the current growth period, while the increase in new business remained below the long-run series average. Future expectations regarding activity in 12 months' time remained optimistic in September, but the level of confidence fell further to an eight-month low.

The headline seasonally adjusted Business Activity Index posted above the 50.0 no-change threshold that separates growth from contraction in September. At 50.5, down from 52.2 in August, the latest index reading signalled that activity increased only marginally during the latest survey period, and at the slowest pace since activity started rising in August 2009.

Four out of the six monitored service sectors registered a slower rate of activity growth in September. Meanwhile, the two remaining sectors – Hotels & Catering and 'Other' – both recorded falls in activity, with the rates of contraction accelerating since August.

Brazilian service providers largely attributed the rise in overall activity to greater client demand. Subsequently, the volume of new business received by firms increased solidly during the latest survey period. Over 14% of panellists reported new business growth in September, compared with 7% that reported

a contraction. Nevertheless, the latest rise in new business remained below the long-run series average.

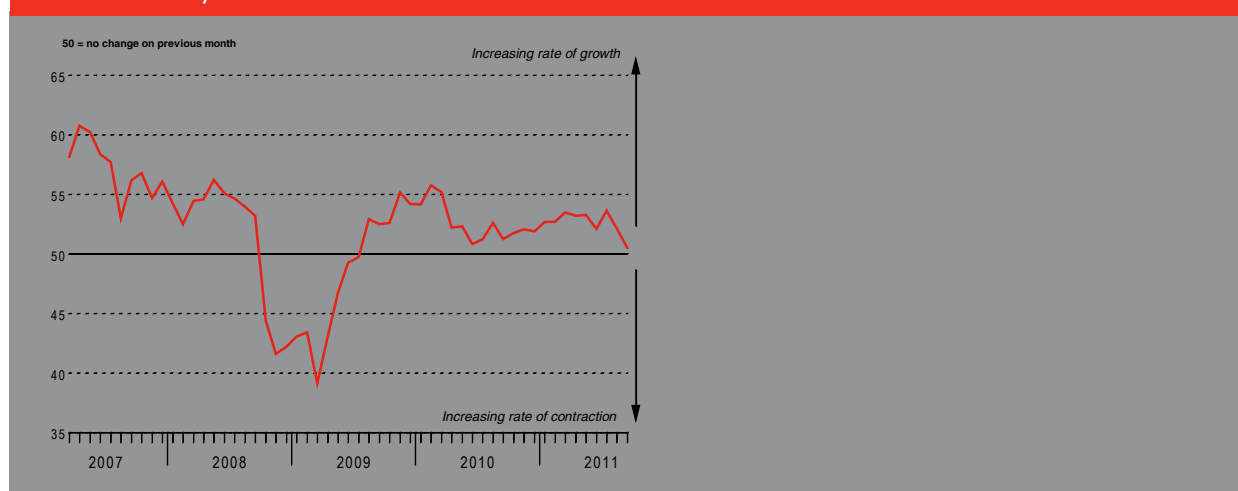
Backlogs declined during the latest survey period, ending a two-month period of accumulation. The fall in work-in-hand (but not yet completed) was moderate and the strongest in five months.

Meanwhile, employment in Brazil's service sector increased for the twenty-sixth consecutive month in September. Survey respondents generally suggested that additional staff were hired as new business volumes increased further. The rate of job creation, however, was only marginal and the weakest in the current period of growth.

Input costs faced by Brazilian service providers rose solidly in September, as has been the case since data collection began in March 2007. That said, the rate of input price inflation eased since the previous survey period to a 26-month low. Firms passed on greater cost burdens to clients by raising their charges, but the latest increase in output prices was only marginal.

In September, firms operating in Brazil's service sector were optimistic regarding activity levels in 12 months' time. Anecdotal evidence suggested that firms forecast economic and new business growth that will contribute to higher activity levels over the next year. Nonetheless, the level of confidence fell further from May's peak to its lowest since January.

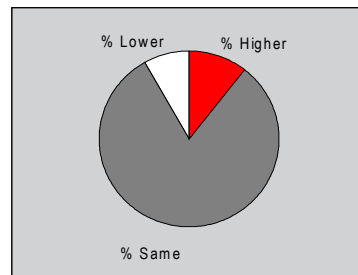
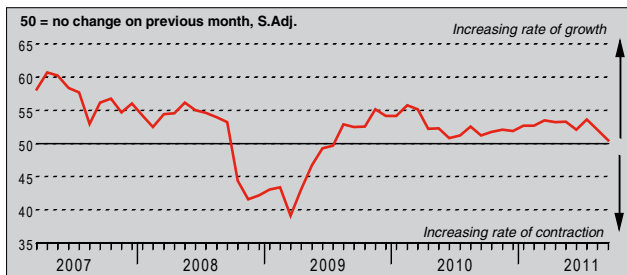
### Business Activity Index



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

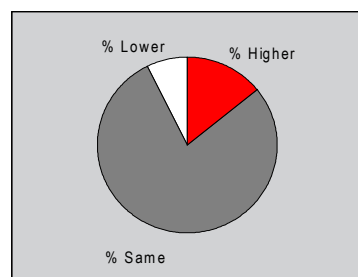
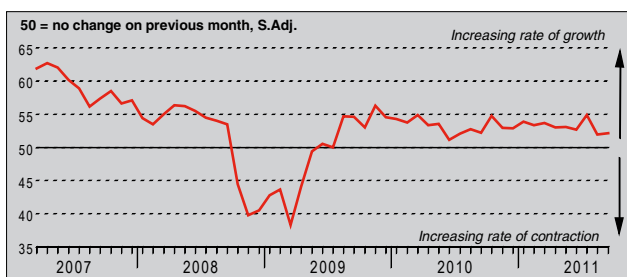
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Brazilian service providers reported a higher level of business activity in September, extending the current period of expansion to 26 months. However, the latest increase in activity was only marginal and the slowest in this sequence. Anecdotal evidence generally attributed the weakness to the recent slowdown in new business growth. Four monitored service sectors registered a weaker rate of output growth in September, while the Hotels & Restaurants and 'Other' categories both recorded falls outright.

### New Business Index

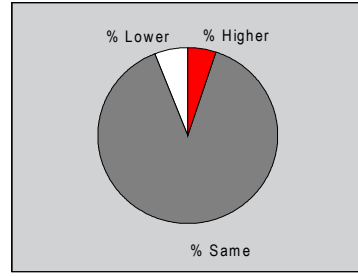
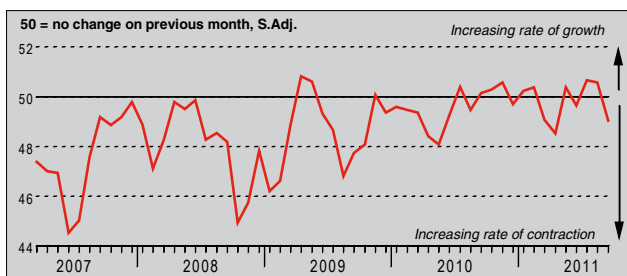
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by firms operating in Brazil's service sector increased further in September. Over 14% of survey respondents reported a higher level of new business, compared with 7% that registered a fall, and largely linked the rise to greater client demand. That said, the rate of new business growth was only moderate and remained below the long-run series average.

### Outstanding Business Index

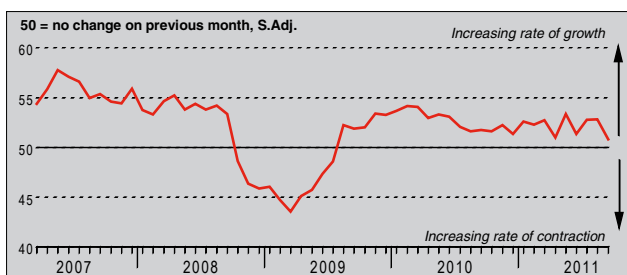
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



In contrast to the previous two months of accumulation, outstanding business at Brazilian service providers fell during September. The depletion of work-in-hand was at the greatest extent since April, but only modest overall. Four out of the six monitored service sectors registered a reduction in backlogs during the latest survey period, with Post & Telecommunications and Renting & Business Activities the exceptions.

### Employment Index

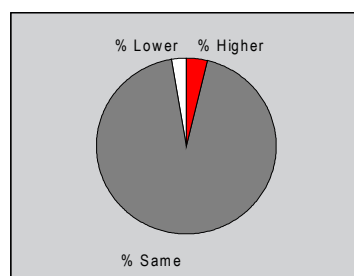
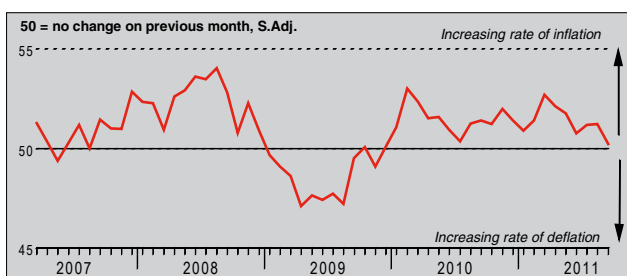
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



In September, employment in Brazil's service sector increased for the twenty-sixth consecutive month. Approximately 7% of monitored companies hired additional staff (while 4% reduced their headcounts), and generally attributed employment growth to a further rise in new business volumes. Nevertheless, the rate of job creation was only marginal and the weakest in the current period of expansion.

## Prices Charged Index

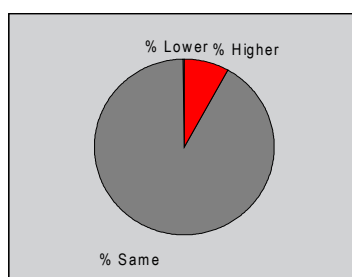
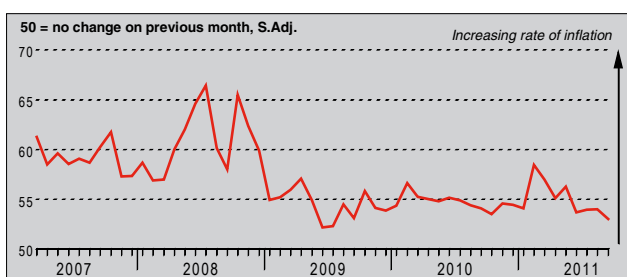
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Brazilian service providers raised their output charges in September, as signalled by the seasonally adjusted Prices Charged Index posting above the 50.0 no-change mark that separates inflation from deflation. However, the latest index reading was only slightly above this threshold, and indicated that the rate of output price inflation was only marginal.

## Input Prices Index

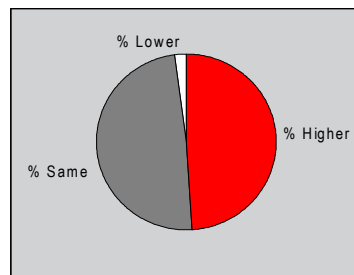
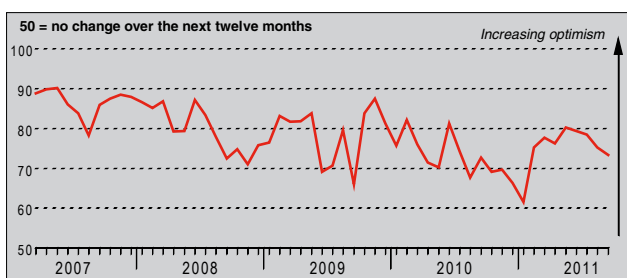
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Continuing the trend that has been recorded in each survey period since data collection began in March 2007, input prices recorded by Brazilian service providers increased during September. Exactly 8% of monitored companies reported higher input costs, while less than 1% registered a fall. The latest rate of input price inflation remained solid, although it slowed to a 26-month low during the latest survey period.

## 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 regarding activity growth over the coming year were optimistic in September. A number of survey respondents anticipate economic and new business growth will continue over the next 12 months and result in higher activity levels. Almost 49% of firms were confident regarding future activity growth, but the overall level of business sentiment fell further from its May peak to an eight-month low.

## Notes on the Data and Method of Presentation

The Brazil Services *PMI*<sup>TM</sup> 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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