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HSBC Brazil Services PMI™

Both activity and new business growth strengthen in October

Key findings:

- Business activity rises at solid pace
- Job creation quickens to five-month high
- Confidence regarding future activity growth the highest since May 2007

Brazilian service providers reported higher business activity levels in October, with the rate of growth strengthening since September. Anecdotal evidence generally linked the increase to greater demand and new client wins. Meanwhile, firms received a greater volume of new business, but the rate of increase remained slower than the long-run series average. Looking ahead, Brazilian service providers were optimistic regarding activity in 12 months' time during October. Confidence rose sharply to the third-highest level in the series history.

In October, firms operating in the Brazilian service sector reported higher levels of activity. This was signalled by the headline seasonally adjusted Business Activity Index posting above the 50.0 no-change threshold that separates growth from contraction. At 53.6, up from 50.5 in September, the rate of activity growth was solid and the fastest in three months.

Five out of six monitored service sectors registered activity growth in October, with the only exception being Hotels & Restaurants. The latest expansion was led by the Financial Intermediation sector, closely followed by the 'Other' category.

Brazilian service providers generally linked the rise in business activity to greater client demand in October. Over 22% of respondents recorded higher new business volumes, compared with 14% that registered a fall. Overall, the rate of new business growth was solid and faster than in September, but nonetheless

remained slower than the long-run series average.

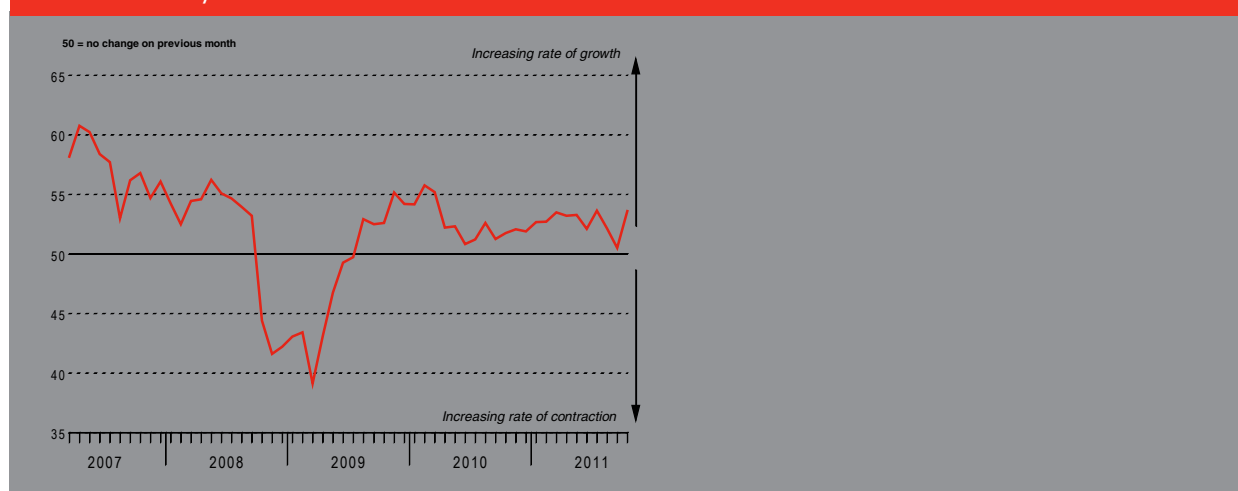
Firms accumulated outstanding business in October, reversing some of the depletion registered in September. Backlogs increased only marginally, however. A number of monitored companies attributed the rise in work-in-hand to recent strikes.

Employment in Brazil's service sector increased during October. Job creation has been registered in each month since August 2009, with the latest rise in staff headcounts the strongest in five months. Anecdotal evidence provided by panellists suggested that firms hired additional staff as new business volumes rose further.

Input costs faced by Brazilian service providers increased modestly during the latest survey period. A number of monitored companies particularly commented that unfavourable foreign exchange rates contributed to the overall rise in cost burdens. Firms passed on higher input prices to clients by raising their charges in October. Although the rate of output price inflation quickened since September, it was only moderate overall.

Business expectations regarding activity over the coming year were optimistic in October. Brazilian service providers were confident that economic growth will continue to support the rise in activity over the next 12 months. Notably, business sentiment rose sharply to its highest level since May 2007.

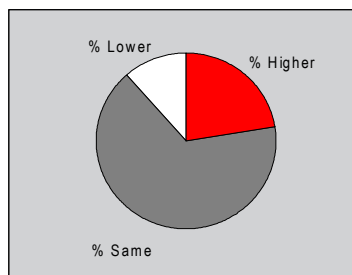
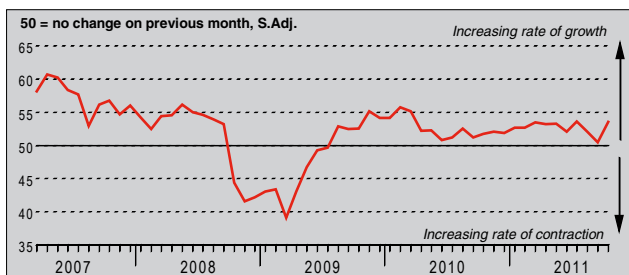
Business Activity Index



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

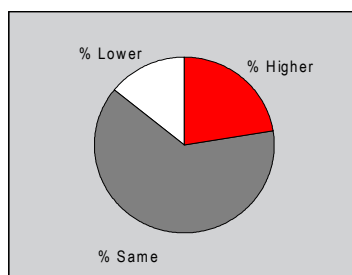
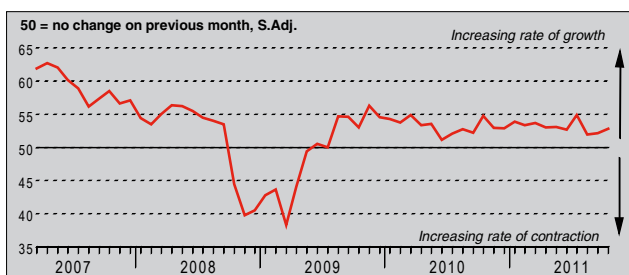
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity at Brazilian service providers increased for the twenty-seventh consecutive month in October. Notably, the rate of growth strengthened sharply since September, with the seasonally adjusted Business Activity Index rising by over three points. Around 22% of surveyed firms reported higher activity levels (while 12% registered a decrease), and largely linked the rise to greater client demand. The Financial Intermediation sector posted the fastest expansion in activity during October.

New Business Index

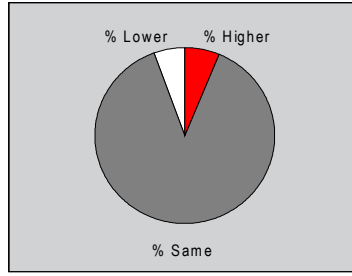
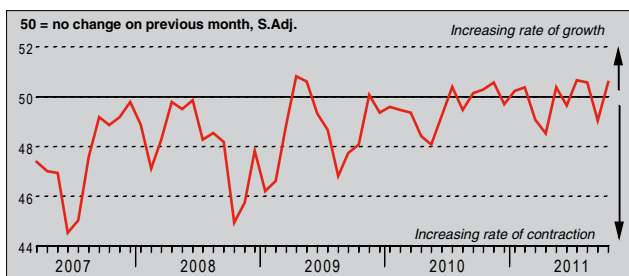
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Brazilian service providers received a larger volume of new business in October, extending the current period of growth to 29 months. The rate of increase was solid and faster than that registered in September, but nonetheless remained weaker than the long-run series average. Anecdotal evidence generally linked the latest rise in new business to greater demand and new client wins.

Outstanding Business Index

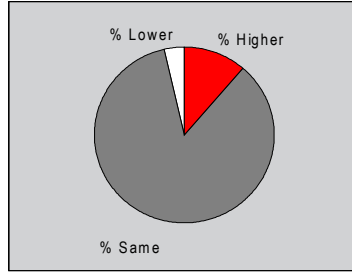
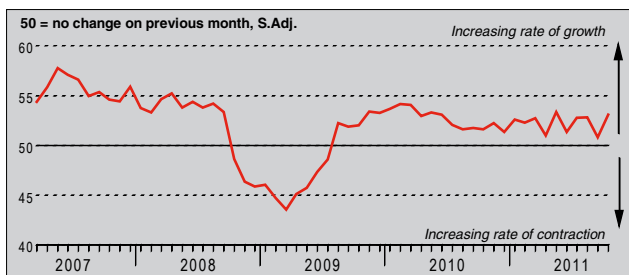
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted above the 50.0 no-change mark and signalled a rise in outstanding business during October. This reversed part of the depletion recorded in September. Reflective of further new business growth, firms accumulated backlogs during the latest survey period. Moreover, a number of monitored companies attributed the rise in work-in-hand to recent strike action.

Employment Index

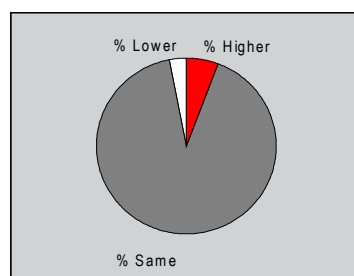
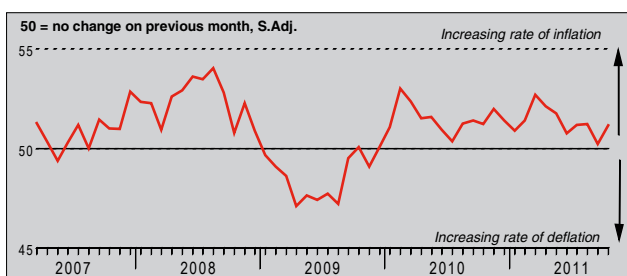
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in Brazil's service sector increased solidly during October. Over 11% of panellists hired additional staff, compared with 4% that reduced headcounts, and generally attributed job creation to larger new business volumes. Moreover, employment growth quickened since September, was faster than the long-run series average, and the strongest in five months. Five out of the six monitored sectors registered job creation in October, with Hotels & Restaurants the only exception.

Prices Charged Index

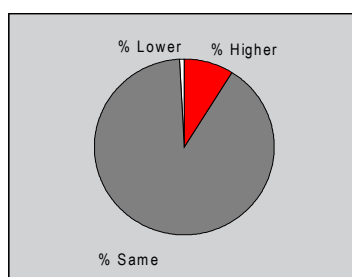
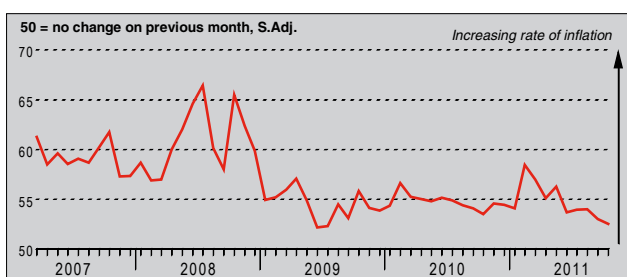
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Continuing the trend registered since December 2009, Brazilian service providers raised their selling prices in October. This was signalled by the seasonally adjusted Prices Charged Index posting above the 50.0 no-change threshold that separates inflation from deflation. Panellists increased their output prices to pass on greater cost burdens to clients.

Input Prices Index

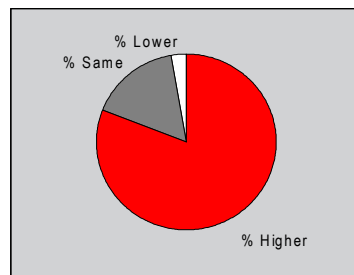
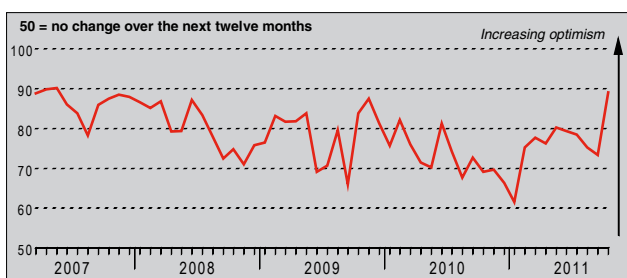
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by firms operating in Brazil's service sector increased in October. Approximately 9% of surveyed firms reported higher input prices, while less than 1% recorded a reduction. Unfavourable exchange rate movements were often commented by panellists. Nevertheless, the rate of input price inflation eased since September, was slower than the long-run series average, and the weakest since July 2009.

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 activity in 12 months time during October. Almost 81% of firms anticipate future activity growth, and generally cited expectations that economic conditions will improve further. Notably, confidence increased sharply since the previous survey period, with the Business Expectations Index rising by almost 16 points to the third-highest reading in the series history.

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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