HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC Brazil Services PMI™ (with Composite PMI data)

Modest rise in Brazil's private sector output in October

Summary

Output across the Brazilian private sector increased in October, as signalled by the HSBC Brazil Composite Output Index posting above the 50.0 no-change mark that separates growth from contraction. At 51.3, up from 48.5 in September, the rise in activity was modest, and in contrast to the previous two months of decline.

The increase in total output generally reflected higher activity levels in the service sector. Service providers have reported greater activity in each month since August 2009. Moreover, the HSBC Brazil Services Business Activity Index rose from 50.5 to 53.6 in October, and signalled that the latest increase in activity was solid and the fastest in three months. In contrast, manufacturing production fell for the fifth consecutive month. However, the rate of decline was the weakest since July.

Firms operating in Brazil's service sector generally linked higher activity to greater client demand. The volume of new business received in October rose solidly and at the strongest pace in three months. Meanwhile, manufacturers registered lower new work intakes, as has been the case since April. Overall, total new orders increased marginally during the latest survey period.

Brazilian manufacturers reported a strong fall in backlogs during October, while service providers registered a slight accumulation. Subsequently, composite data signalled a depletion of outstanding business for the fifth successive month.

Employment in Brazil's service sector increased in October, extending the current period of job creation to 27 months. Moreover, employment growth was the fastest since May. Private sector employment also rose, despite manufacturers reducing their workforces further.

Higher input prices were recorded in both the manufacturing and service sectors during the latest survey period. Unfavourable exchange rates were particularly mentioned by panellists. Firms passed on greater cost burdens to clients by raising their output charges. Overall, composite data signalled only a modest rise in average selling prices in October.

Brazilian service providers were optimistic in October regarding activity over the next 12 months. Notably, confidence rose sharply to its highest level since May 2007, as economic growth is forecast to support activity growth further.

Comment

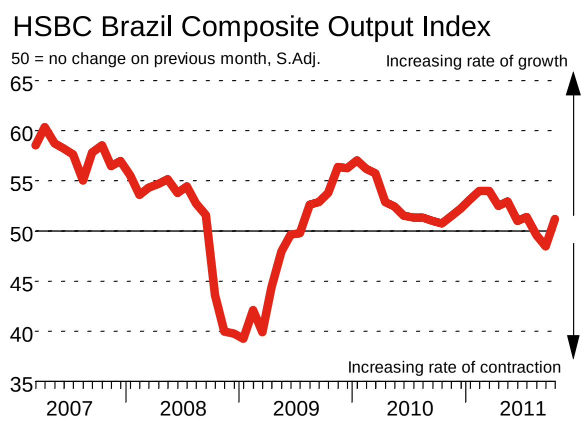
Commenting on the Brazil Services and Composite PMI data, Andre Loes, Chief Economist, Brazil, at HSBC said:

"The HSBC Brazil Services PMI index rebounded last month, rising from 50.5 in September to 53.6 in October. The headline services PMI had reached its lowest level since July 2009 in September, raising fears that the services sector too was moving towards a stronger slowdown. October's rebound is a relief, and suggests that the divergence between weakness in the manufacturing sector and the resilience of the services sector persists."

Key points

- Private sector output increases modestly, as service activity growth reaches three-month high
- Job creation in Brazil's service sector the fastest since May
- Confidence among service providers regarding future activity growth the highest since May 2007

Historical Overview



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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.

The *Purchasing Managers' Index™* (*PMI™*) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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