HSBC Brazil Services PMITM (with Composite PMI data)

Output growth in Brazil's private sector fastest since March 2010

Summary

Output in Brazil's private sector increased for the fifth consecutive month in February, as indicated by the HSBC Brazil Composite Output Index posting above the 50.0 no-change mark that separates growth from contraction. At 55.5, the index signalled that the expansion in overall business activity was strong and above the long-run series average. Moreover, it was the fastest rate of growth since March 2010.

The increase in private sector output reflected gains in both Brazil's manufacturing and service sectors. Manufacturers reported higher production for the second consecutive month in February, while service providers recorded the strongest increase in business activity since July 2007. The HSBC Brazil Services Business Activity Index rose from 55.0 to 57.1 during the latest survey period, signalling a marked pace of activity growth.

Firms operating in Brazil's service sector largely linked the sharp rise in activity to greater client demand. Approximately 24% of panellists received a larger volume of new business in February, with the overall increase the strongest since December 2007. Incoming new work at manufacturing companies also grew during the latest survey period, albeit modestly. Concurrently, the amount of new orders placed at Brazilian private sector firms as a whole in February rose strongly, and at the fastest pace in almost two years.

Reflective of the rise in new business, backlogs of work in Brazil's private sector increased in February. Although only modest, it was nonetheless in contrast to declines reported in each of the past eight months. Notably, outstanding business at Brazilian service providers rose to the greatest extent in the five-year survey history.

Both manufacturers and service providers in Brazil hired additional staff during the latest survey period. Moreover, the rates of job creation quickened from those registered in January. Firms that raised their staff headcounts generally cited larger new order requirements in February. Overall, employment growth in the private sector was solid and the fastest since April 2010.

Input costs faced by monitored companies in Brazil's service sector increased strongly in February, with firms particularly mentioning larger salary bills. Manufacturers also reported higher input prices during the latest survey period. Overall, the rate of input price inflation across both the manufacturing and service sectors was strong and the fastest in nine months. Panellists partly

passed greater cost burdens on to clients by raising their selling prices. The overall increase in output charges in Brazil's private sector was modest, but the strongest since last May.

Comment

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

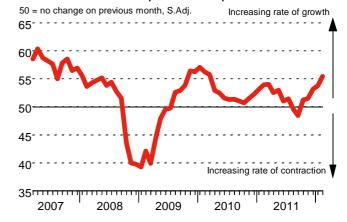
"The HSBC Brazil Services PMI index advanced to 57.1 in February, from 55.0 in January. This is not only the 31st consecutive month that the services sector has expanded, but the February services PMI indicates that the rate of growth was the fastest since July 2007. Although the economy was expected to rebound as we move into 2012, the PMI suggests that the recovery is happening faster than most would have expected."

Key points

- Total output increases strongly, largely reflective of sharp rise in services business activity
- New business growth at service providers fastest since December 2007
- Backlogs of work in Brazil's service sector accumulate at strongest rate in survey history

Historical Overview

HSBC Brazil Composite Output Index



Sources: Markit, HSBC.





For further information, please contact:

HSBC

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

Renata Binotto, Senior Press Officer, HSBC Bank Brazil Telephone +55-11-3847-5786 Email renata.binotto@hsbc.com.br Constantin Jancso, Senior Economist, HSBC Bank Brazil Telephone +55-11-3371-8183 Email constantin.c.jancso@hsbc.com.br

Markit

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

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
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.

The *Purchasing Managers' IndexTM (PMITM)* 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.

HSBC:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 7,500 offices in over 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, and the Middle East and North Africa. With assets of US\$2,716bn at 30 September 2011, HSBC is one of the world's largest banking and financial services organisations.

About Markit:

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' IndexTM (PMITM) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC Brazil Services and Composite *PMI*TM provided herein are owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*TM and *PMI*TM are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.