

HSBC Brazil Services PMI™ (with Composite PMI data)

Private sector output growth slows, largely reflecting weaker rise in services activity

Summary

March data signalled a further increase in Brazilian private sector output, with the HSBC Brazil Composite Output Index remaining above the 50.0 no-change mark that separates growth from contraction. At 53.4, down from 55.5 in February, the index indicated a solid rise in private sector activity in March. Moreover, the average index reading for Q1 as a whole (54.2) was the strongest since Q1 2010.

The latest increase in output reflected activity growth in both the manufacturing and service sectors. Manufacturing production rose for the third month running in March, while services activity increased solidly, albeit at the weakest rate in four months. The HSBC Brazil Services Business Activity Index fell from 57.1 in February to 53.8 in March.

Brazilian service providers generally linked the latest rise in activity to greater client demand. New business rose further during March, continuing the trend that has been registered since June 2009. Although the rate of increase was solid, it was nonetheless the weakest since last November. Manufacturers also received a larger volume of new work during the latest survey period. That said, the overall expansion in incoming new work in Brazil's private sector was only modest and the weakest in four months.

In March, outstanding business in Brazil's private sector was largely unchanged from that registered in February. While work-in-hand was broadly unchanged at service providers, backlogs at manufacturing firms were accumulated marginally.

Employment in Brazil's private sector increased for the sixth consecutive month in March. That said, the rate of job creation was the weakest in 2012 so far. Firms in both the manufacturing and service sectors hired additional staff during the latest survey period, with the strongest increase reported by service providers. Panellists generally linked services employment growth to larger new business requirements.

Monitored companies operating in Brazil's service sector reported higher input costs in March. Higher raw material prices particularly contributed to the overall rise in cost burdens. Manufacturing firms also reported an increase in costs. The overall rate of input price inflation for the Brazilian private sector as a whole remained strong in March, but nonetheless slowed since February.

Brazilian service providers were optimistic towards future expansions in activity during March. Forecasts of economic growth and greater demand will likely support

the anticipated rise in business activity. Notably, confidence was marked and the strongest since data collection began in March 2007.

Comment

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

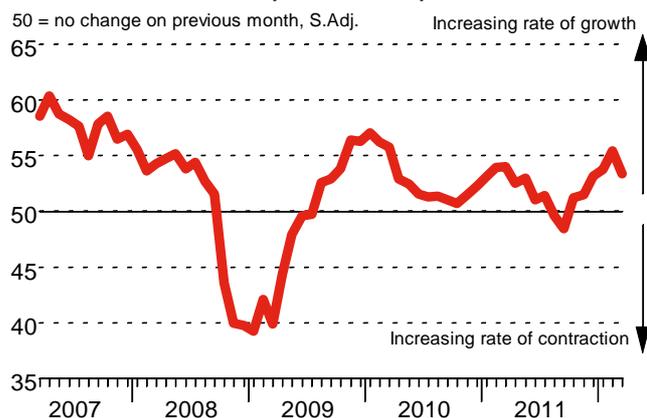
"After jumping to its highest level in almost five years last February, the HSBC Services PMI retreated from 57.1 to 53.8 in March. However, this is the 32nd consecutive month that the Services PMI has indicated an expansion of the sector. While the headline index retreated from one month earlier, other indicators still point to strong levels of activity in the services sector. Business expectations, for example, jumped from 84.8 in February to an all-time high of 94.2."

Key points

- Solid expansions in both services output and new business during March
- Rate of job creation the slowest in 2012 so far
- Service providers most optimistic towards future activity growth in survey history

Historical Overview

HSBC Brazil Composite Output Index



Sources: Markit, HSBC.

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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.

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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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