

# HSBC Brazil Services PMI™ (with Composite PMI data)

## Further rise in private sector output, but growth weakest since last November

### Summary

April data indicated 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 52.7, the index has remained above the neutral 50.0 threshold for the seventh month running, and signalled a solid increase in private sector activity. However, down from 53.4 in March, PMI data suggested that the rate of output growth was nonetheless the slowest since November 2011.

There were divergences at the sector level, however. Although manufacturers reported the first decline in output in 2012 so far, service providers recorded a strong increase in activity during April. The latter was indicated by the seasonally adjusted HSBC Brazil Services Business Activity Index rising from 53.8 to 54.4 – a level above the historic series trend.

Notably, the level of optimism towards services activity over the coming year remained marked in April. Moreover, confidence was broadly unchanged from the survey high registered in March. Expectations of further economic growth and greater client demand are both anticipated to support higher activity over the next 12 months.

Brazilian service providers generally linked the increase in activity to greater client demand. Approximately 22% of surveyed firms received a larger volume of new business compared with March, with the rate of growth strong overall. In contrast, manufacturing new orders fell during April. The rate of increase in new work was broadly unchanged from March at the composite level.

Reflective of the increase in new business, outstanding business at firms working in Brazil's service sector rose during April. Although modest, the latest accumulation of backlogs of work was the second-strongest since services PMI data collection began in March 2007. Meanwhile, lower work-in-hand at manufacturers led to an overall decline across the private sector as a whole.

Employment in Brazil's service sector increased in April, with firms generally linking job creation to larger new business requirements. That said, employment growth was moderate and the weakest since last November. Concurrently, total employment also increased at the weakest rate in five months during April.

Brazilian service providers reported a further rise in input costs in April, particularly due to larger salary bills. Manufacturers also recorded an increase in cost

burdens, with the overall rate of input price inflation strong and faster than that recorded in March.

### Comment

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

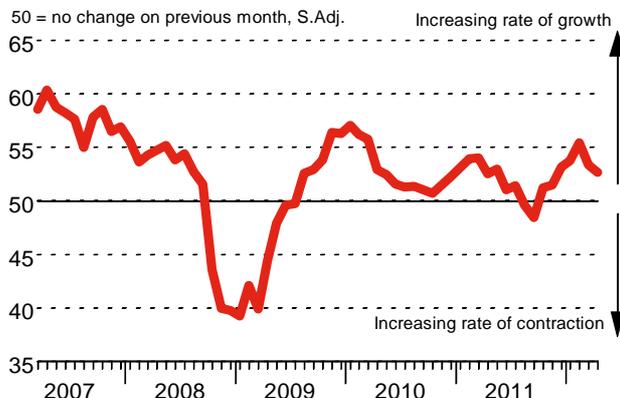
*"The divergence between the manufacturing and services sectors continues. While the Manufacturing PMI for Brazil fell below 50 in April, the HSBC Services PMI climbed from 53.8 to 54.4. This indicates that the services sector started 2Q2012 at a slightly slower pace of growth than the average for 1Q2012 (55.3), but otherwise, at the fastest pace since 1Q2010. The strength of activity in the services sector is perhaps best illustrated by the Business Expectations Index, which had jumped practically 10 points to an all-time high of 94.2 in March, and remained at that same level in April (94.1). The services sector has been the main pillar supporting domestic demand, and the latest Services PMI report shows no sign that this will reverse itself anytime soon."*

### Key points

- Total output increases solidly, largely reflecting higher services activity
- Brazilian service providers optimistic towards future activity growth, with confidence remaining at record levels
- Growth of private sector employment slows to five-month low in April

### 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](mailto:andre.a.loes@hsbc.com.br)

Constantin Jancso, Senior Economist, HSBC Bank Brazil  
Telephone +55-11-3371-8183  
Email [constantin.c.jancso@hsbc.com.br](mailto:constantin.c.jancso@hsbc.com.br)

Renata Binotto, Senior Press Officer, HSBC Bank Brazil  
Telephone +55-11-3847-5786  
Email [renata.binotto@hsbc.com.br](mailto:renata.binotto@hsbc.com.br)

**Markit**

Mark Wingham, Economist  
Telephone +44-1491-461-004  
Email [mark.wingham@markit.com](mailto:mark.wingham@markit.com)

Rachel Harling, Corporate Communications  
Telephone +44-20-7064-6283  
Mobile +44-782-789-1072  
Email [rachel.harling@markit.com](mailto: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' 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](mailto:economics@markit.com).

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