HSBC Brazil Services PMITM (with Composite PMI data)

Private sector output falls for first time since last September

Summary

May data pointed to a decline in Brazilian private sector output, with the HSBC Brazil Composite Output Index falling below the 50.0 no-change mark that separates growth from contraction. This was the first sub-50 reading since September 2011. At 49.6, down from 52.7 in April, the index was only slightly below the neutral threshold, however, and suggested that the fall in Brazil's private sector output was only marginal.

Both the manufacturing and service sectors posted falls in activity during May. This was the second monthly decline in manufacturing production, while it was the first reduction in services activity since July 2009. Although the fall in business activity at service providers was only marginal, it contrasted with solid growth recorded in the previous month. The seasonally adjusted HSBC Brazil Services Business Activity Index fell sharply from 54.4 in April to 49.7 in May.

Brazilian service providers meanwhile remained optimistic towards activity levels over the coming year. Forecasts of economic growth are likely to support higher activity over the next 12 months. Although confidence remained marked, it nonetheless fell from record highs in the previous two months to its lowest level since September 2011.

The decline in services activity generally reflected weak client demand. The volume of new business received by service providers fell for the first time since May 2009, but the rate of contraction was only marginal. Incoming new work at manufacturers also fell during May, with overall new orders in the private sector falling modestly since April.

Reflective of lower new work intakes, outstanding business at the composite level fell for the second consecutive month in May. Lower backlogs of work in manufacturing contrasted with broadly no change in work-in-hand in services.

Employment in Brazil's service sector increased in May, with approximately one in every ten panellists hiring additional staff since April. The overall rate of job creation was moderate, but nonetheless the slowest in six months. Job losses meanwhile were recorded in the manufacturing sector. Concurrently, total private sector employment increased at its weakest pace since last November.

Input costs faced by Brazilian service providers rose further in May, with fuel and salary bills particularly mentioned as having increased in price. Larger cost burdens were also reported by manufacturers. Overall,

the rate of input price inflation in Brazil's private sector was strong, but slightly slower than that registered in the previous month.

Comment

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

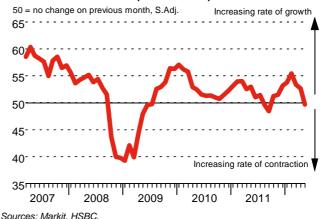
"The May HSBC Services PMI showed a steep slowdown in economic activity in the services sector. The Business Activity index retracted to 49.7, below the 50 mark and its lowest level since July 2009. While we will want to wait for more data in order to better gauge the situation in the services sector, this is the first sign that the sluggishness in the industrial sector is spreading to services. In any case, the composite index fell to 49.6, the lowest level since September 2011. Overall, economic data for April were disappointing, and the PMI readings suggest that this has persisted into May."

Key points

- Lower manufacturing and services activity in May, but rates of decline only marginal
- Confidence towards future services activity at eightmonth low
- Slowest rate of overall job creation since last November

Historical Overview

HSBC Brazil Composite Output Index







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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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