HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC Brazil Services PMI™ (with Composite PMI data)

Private sector output returns to growth in June

Summary

Private sector output in Brazil increased in June, reversing the marginal reduction reported in May. This was signalled by the seasonally adjusted HSBC Brazil Composite Output Index posting above the 50.0 no-change mark that separates growth from contraction. At 51.5, up from 49.6, the index indicated a modest expansion in total activity. However, the average reading for the second quarter as a whole was 51.3 – the lowest since Q3 2011.

The overall increase in private sector output reflected higher activity at service providers, as manufacturing production fell for the third month running and at the sharpest rate since last October. June data indicated a solid rise in services activity, in contrast to the decline registered in May, with the HSBC Brazil Services Business Activity Index rising from 49.7 to 53.0.

Firms working in Brazil's service sector generally linked higher activity to greater client demand, with one in every five panellists reporting an increase in new business. Incoming new work rose solidly in June, reversing the slight reduction recorded in May. Meanwhile, at the composite level new work intakes rose only modestly in June, as manufacturing new orders fell for the third month running.

Outstanding business at service providers fell for the second consecutive month in June. Lower backlogs of work were also reported by manufacturers. Overall, work-in-hand (but not yet completed) across both the manufacturing and service sectors fell at the sharpest rate since last September.

Reflective of the rise in new business, firms working in Brazil's service sector hired additional staff in June. Approximately 12% of monitored companies increased their employee numbers from May, with the rate of job creation solid and the fastest in four months. Despite the strongest reduction in manufacturing headcounts in eight months, total employment rose modestly in June.

Composite data signalled a further rise in input prices in June, with panellists commenting on higher purchasing costs and exchange rate fluctuations. That said, the rate of input price inflation slowed for the second month running and was the weakest in 2012 to date. Firms in both the manufacturing and service sectors meanwhile reported a modest rise in selling prices in June.

Brazilian service providers remained optimistic regarding the one-year business outlook in June. Forecasts of economic growth and new client wins are expected to support the rise in activity over the next 12 months. Although confidence towards future expansion was marked, it was nonetheless at a nine-month low.

Comment

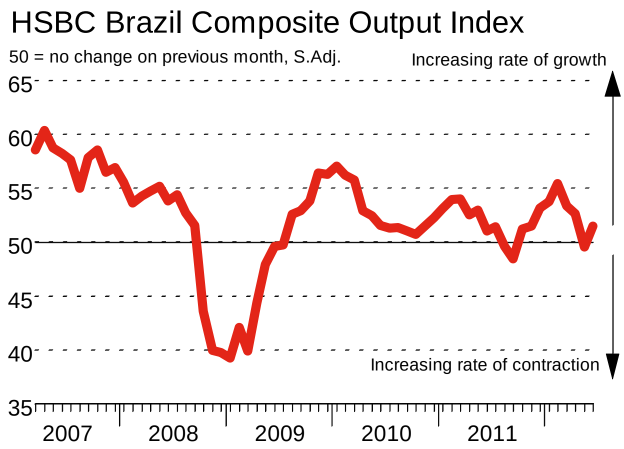
Commenting on the Brazil Services and Composite PMI™ surveys, Andre Loes, Chief Economist, Brazil, at HSBC said:

"The HSBC Services PMI index bounced from 49.7 in May to 53.0 in June. This is quite a relief, as the services sector had been the lifebuoy of the Brazilian economy and May's surprisingly weak result had been the first time this Services PMI had fallen below the 50 mark since July 2009. That said, although the services PMI is back above 50, Brazil's economy is still not out of the woods. Data for the second quarter as a whole suggests slower economic activity in the services sector, which if confirmed, may add to the drag on headline GDP growth in 2012."

Key points

- Service providers report higher activity, while manufacturers record lower output
- Job creation in services strongest since February
- Overall rate of input price inflation weakest in 2012 so far

Historical Overview



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.

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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Purchasing Managers' Index™ (PMI™) 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