HSBC Purchasing Managers' Index™ Press Release

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HSBC Brazil Services PMITM (with Composite PMI data)

Private sector output falls modestly during July

Summary

Business activity in Brazil's private sector fell for the second time in three months during July. This was indicated by the seasonally adjusted HSBC Brazil Composite Output Index returning to below the 50.0 nochange mark that separates an increase in business activity from a reduction. At 48.9, down from 51.5 in June, the index was at a ten-month low and signalled a modest reduction in private sector output overall.

Both the Brazilian manufacturing and service sectors reported lower levels of output in July. Manufacturing production declined for the fourth month running, while services activity fell at the sharpest rate since May 2009. The latter was signalled by the HSBC Brazil Services Business Activity Index falling from 53.0 to 48.9 during July.

The reduction in services activity generally reflected weak client demand. The volume of new business received by service providers rose for the second consecutive month, but the rate of growth was only marginal and slower than the long-run series average. At the composite level, new work intakes meanwhile declined over the month, albeit only fractionally, with new orders placed at manufacturers falling further in July.

Outstanding business at both manufacturing and service companies fell further during the latest survey period. Composite data signalled a moderate reduction in backlogs of work, although the rate of depletion eased from that registered one month previously.

Firms working in Brazil's service sector hired additional staff in July, taking the current sequence of job creation to three years. Approximately 6% of companies reported larger workforces, and generally linked this to recent increases in new business. Employment in the manufacturing sector continued to fall, however, with the latest round of job losses the strongest since July 2009.

Input costs rose further in July, with respondents in both the manufacturing and service sectors reporting an increase from June. Panellists commented that higher raw material prices, especially for fuel, and exchange rate fluctuations contributed to the overall rise in cost burdens. Moreover, the rate of input price inflation was strong and the fastest in three months.

Brazilian service providers are optimistic towards activity levels in 12 months' time. Approximately one in every two panellists expect higher activity levels over the coming year, with forecasts of economic growth and

greater demand predicted to support the increase in business activity. That said, confidence towards future activity growth fell for the fourth consecutive month, and was the lowest in a year-and-a-half.

Comment

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

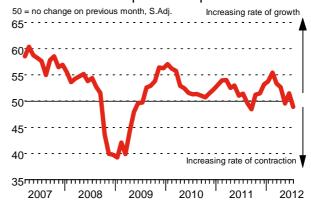
"The HSBC Services PMI index fell back in to the red in July. The relief provided by June's reading, when the index reached 53.0 after having dipped below 50.0 in May was short-lived. Although the performance of the economy in 1H2012 may have been uninspiring, the service sector played an important role in supporting growth. The fact that 2H2012 has begun with such a poor performance may weigh on expectations regarding the rest of the year."

Key points

- Strongest reduction in services activity since May 2009
- First reduction in total employment in ten months
- Service providers least optimistic towards future activity growth since January 2011

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.

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.

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