# **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC Brazil Services PMI<sup>TM</sup> (with Composite PMI data)

# Strongest decline in private sector output since September 2011

# **Summary**

Private sector output in Brazil fell for the second consecutive month in August, with the seasonally adjusted HSBC Brazil Composite Output Index remaining below the 50.0 no-change mark. At 48.6, the index was consistent with a moderate overall decline in activity over the month. Moreover, down from 48.9, it signalled the strongest rate of contraction since September 2011.

Lower output was reported in both the Brazilian manufacturing and service sectors during August. Manufacturing production declined for the fifth successive month, although the latest reduction was the weakest in this sequence, while services activity fell for the second month running and to the greatest extent since May 2009. The latter was indicated by the HSBC Brazil Services Business Activity Index falling from 48.9 in July to 48.1 in August.

Brazilian service providers generally attributed the reduction in activity to demand weakness and the loss of some clients. Incoming new business fell moderately during August, in contrast to the previous two months of increases, and at the fastest pace since April 2009. New work intakes reported by manufacturers also fell over the month. Subsequently, total new orders (covering both manufacturing and services) declined at the sharpest rate in 40 months.

Outstanding business fell at both manufacturing and service companies in August. Composite data has indicated lower backlogs of work in each month since April, although the latest depletion was only marginal.

Private sector employment in Brazil fell for the second month running in August, with the rate of contraction the sharpest for over three years. This partly reflected the first reduction in services employment since July 2009.

Both Brazilian manufacturers and service providers reported higher input prices in August. The rate of inflation eased in services, but strengthened in manufacturing. Fuel and raw materials were particularly mentioned by panellists as having increased in price over the month.

Despite the further reduction in services activity, firms working in Brazil's service sector remained optimistic regarding the one-year business outlook. Forecasts of economic growth and greater client demand are both expected to support higher business activity levels in 12 months' time. However, confidence towards future activity growth fell sharply from the survey-highs

recorded in the first half of the year, and was the lowest since January 2011.

#### Comment

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

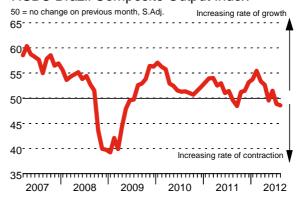
"The HSBC Services PMI index fell further into the red in August, to 48.1, its lowest level since May 2009. The poor performance of the Services PMI so far this quarter is a cause for discomfort, as most analysts (including ourselves) expect growth to rebound in 3Q2012, and the service sector accounts for about two-thirds of GDP. The Employment Index also fell below the 50 mark – signalling a net loss in jobs – for the first time since July 2009. This is something we will want to monitor very closely, as the private service sector accounts for around 60% of the job market, which so far, had shown remarkable resilience to the economic downturn."

# Key points

- Further reductions in both total output and new orders in August
- Employment falls at sharpest rate for over three years, with lower headcounts in both manufacturing and services
- Service providers least optimistic regarding oneyear business outlook 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' Index<sup>TM</sup> (PMI<sup>TM</sup>)* 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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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