

HSBC Brazil Services PMI™ (with Composite PMI data)

Private sector output expands for first time in three months

Summary

Brazilian private sector companies indicated rising output during September. The seasonally adjusted HSBC Brazil Composite Output Index posted above the 50.0 no-change mark. At 52.2, up from 48.6 in August, the index signalled the first expansion of output in three months. The rate of growth was moderate, but the fastest since April.

Output was higher at both manufacturing and services firms, with the pace of expansion faster in the service sector. The HSBC Brazil Services Business Activity Index increased from 48.1 to 52.8 during September. Output expanded in all six monitored categories, with the fastest pace recorded at Financial Intermediation.

The volume of incoming new work in the manufacturing sector contracted for the sixth successive month, amid reports of weaker demand. However, the rate of decline was only slight. In contrast, service providers signalled solid growth in new business, in a change of direction since August. Anecdotal evidence suggested that demand for services was higher.

The volume of work-in-hand (but not yet completed) in the private sector contracted slightly, as both services and manufacturing firms signalled decreases. Moreover, the pace of depletion was faster in the manufacturing sector.

Whereas job creation was signalled in the services sector, manufacturing companies indicated a slight contraction in workforces. Approximately 5% of service providers increased their staffing levels and linked expansion to stronger demand. In contrast, weaker demand led manufacturing companies to reduce their payroll numbers. Overall, employment was broadly flat.

Input cost inflation at Brazilian private sector firms was maintained, but at the slowest pace since November 2011. Purchase costs in the manufacturing sector increased solidly, amid reports of higher steel and raw material prices. Moreover, the pace of inflation accelerated to the fastest since June 2011. In contrast, input cost inflation at services firms was at a ten-month low.

Charges at private firms in Brazil increased again, as has been the case since December 2011. In the manufacturing sector the pace of output price inflation was solid, and in line with August. However, at service providers charges rose at only a modest rate, the slowest recorded in five months.

Positive sentiment was signalled in the Brazilian service sector as developments for the World Cup and post-

election period is forecast to drive output growth. Nonetheless, the degree of optimism was at a 20-month low.

Comment

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

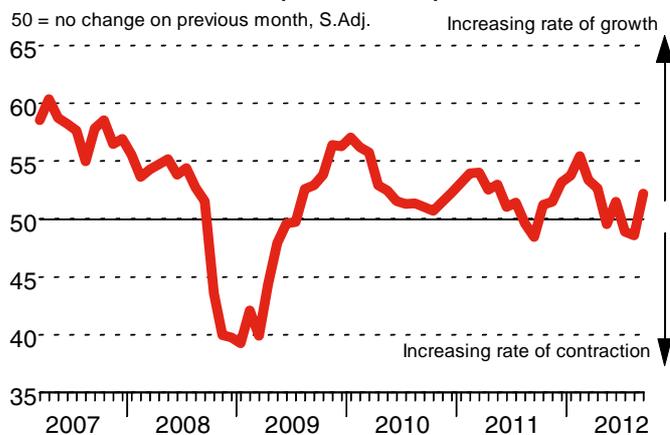
"After reaching its lowest level since May 2009 in August (48.1), the HSBC Services PMI bounced back to positive terrain in September, reaching 52.8. The new business index too is back in the black (also at 52.8) suggesting that demand for services is also picking up. The improvement in the level of activity in the services sector, on its turn, appears to have stopped the erosion of business confidence seen over the last several months. Overall, the rebound of the services PMI provides further evidence that the recovery of economic activity we were expecting for the second half of the year appears to be materializing as of the end of 3Q2012."

Key points

- Private sector companies record a modest expansion in activity
- Input cost inflation slowest since November 2011 at services companies
- Positive sentiment in the service sector at 20-month low

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

Constantin Jancso, Senior Economist, HSBC Bank Brazil
Telephone +55-11-3371-8183
Email 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

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7060-2047
Mobile +44-781-581-2162
Email caroline.lumley@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.

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