HSBC Brazil Services PMITM (with Composite PMI data)

Private sector output increases at slowest rate in four months

Summary

Output across the Brazilian private sector rose during February, as indicated by the HSBC Brazil Composite Output Index posting above the no-change threshold. At 52.9, the seasonally adjusted index signalled that the latest increase was solid, but that growth had eased to a four-month low.

After adjusting for seasonal variations, the HSBC Brazil Services Business Activity Index posted 52.1 in February (down from 54.5 in January). Despite being above 50.0 for the sixth successive month, the latest reading indicated that business activity expanded only modestly, and at the slowest pace in four months.

The volume of incoming new work at private sector companies in Brazil rose during February, marking a six-month sequence of expansion. Manufacturers and service providers both registered solid growth in new work intakes, although the rates of increase eased in both sectors. Consequently, business activity across the private sector increased solidly, but at the slowest rate since October 2012. Those panel members signalling higher levels of new orders reported that demand was stronger.

Staffing levels in the Brazilian private sector fell for the first time in six months during February. Whereas services companies registered a slight decline in workforces, manufacturers signalled a further rise. Subsequently, the overall pace of job shedding was only slight.

Reflective of higher raw material and fuel costs, average prices paid by companies operating in the Brazilian private sector rose during February. Nonetheless, the rate of inflation remained below the survey average, and has now maintained a broadly steady trend pace for a year.

Private sector firms passed on to their clients part of the burden of cost inflation, as average selling prices increased for a further month. However, the overall rate of charge inflation was only slight and unchanged from January. Output prices rose in both the manufacturing and service sectors, with the rates of increase moderate and slight respectively.

February data indicated no change in the level of unfinished business at private sector companies in Brazil. Manufacturers posted an accumulation (although slight) in backlogs of work, linking the rise to solid new orders growth and transportation difficulties. Conversely, service providers signalled a decrease, albeit only slight.

Continuing the trend that has been observed in each month since data collection started in March 2007, optimism was signalled by services firms in Brazil during February. More than half of monitored companies expect activity to grow in 12 months time, while 47% anticipate no change. Consequently, the degree of positive sentiment was strong and at a three-month high.

Comment

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

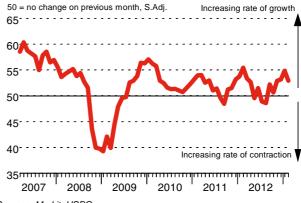
"The HSBC Services PMI Index retreated from 54.5 in January to 52.1 in February, following the same direction as the manufacturing PMI, which had declined from 53.2 to 52.5. The result is that the composite PMI fell from 54.9 to 52.9, returning to levels similar to those observed in November-December. The PMI suggests that the economy is indeed recovering, but at a cooler pace than the January indicators suggested, which seems more in line with our forecast of a modest recovery in 2013."

Key points

- Output growth eases in both the manufacturing and service sectors
- Private sector employment decreases for first time in six months
- Degree of optimism at service providers strongest since November 2012

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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