HSBC Brazil Services PMITM (with Composite PMI data)

Growth in private sector output eases to five-month low

Summary

Private sector firms operating in Brazil signalled a further increase in output during March, but the rate of expansion was only slight and the slowest in five months. The seasonally adjusted HSBC Brazil Composite Output Index posted 51.0, down from 52.9 in the previous month. The latest reading pointed to an improvement in private sector activity, but growth lost more momentum with the index falling for the second month running. Business activity rose at slower rates in both the manufacturing and service sectors.

The HSBC Brazil Services Business Activity Index posted 50.3 in March, down from 52.1 in February. The latest reading indicated that the rate of expansion was only fractional and the weakest in the current sevenmenth sequence of growth. Nonetheless, the average reading for the first quarter of the year (52.3) was broadly in line with that seen in Q42012 (52.1).

Brazilian service providers received a larger volume of new business in March, amid reports of strong domestic demand. That said, the rate of expansion was only slight and the weakest in five months. New order growth in the manufacturing sector was moderate and eased to a three-month low. Subsequently, the overall expansion across the private sector was only slight.

Reflective of increased new business, survey participants hired additional staff. Job creation was signalled in both the manufacturing and service sectors, with rates of expansion moderate and slight respectively. Backlogs of work were meanwhile depleted, albeit only slightly. While the level of unfinished business fell for the fifth consecutive month at services firms, manufacturers registered the first decrease since December last year.

Input costs faced by Brazilian private sector companies increased during March, as has been observed for over three-and-a-half years. The rate of cost inflation in the service sector was solid, and little-changed from February. In contrast, manufacturers posted the fastest rise since May 2011. Survey respondents indicated that raw materials in general rose. Private sector firms passed on greater cost burdens to clients by raising their selling prices. Despite being only moderate, the pace of charge inflation was the fastest in six months.

Strong optimism was signalled by service providers in March, although confidence eased from February. Firms anticipate activity to be higher over the coming year, with forecasts of economic growth and higher demand both predicted to support the rise in business activity.

Comment

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

"The HSBC Services PMI index dropped to 50.3 in March, from 52.1 in February and 54.5 in January. Although we expect only a modest recovery of economic activity in 2013 and recently downgraded our GDP growth forecast for 2013 from 3% to 2.6%, we are surprised with the decline in the index to just above the 50.0 mark, as it indicates that economic activity in the service sector barely expanded in March."

Key points

- Manufacturers and service providers post slower expansion in output
- New orders across the private sector increase only slightly
- Job creation is signalled at private sector companies

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

Renata Binotto, Senior Press Officer, HSBC Bank Brazil Telephone +55-11-3847-5786
Email renata.binotto@hsbc.com.br

Constantin Jancso, Senior Economist, HSBC Bank Brazil Telephone +55-11-3371-8183 Email constantin.c.jancso@hsbc.com.br

Chrystiane Silva, Press Officer, HSBC Bank Brazil Telephone +55-11-3847-9339 Email chrystiane.m.silva@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' 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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