HSBC Purchasing Managers' Index™ Press Release

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HSBC Brazil Services PMITM (with Composite PMI data)

Growth of private sector output remains sluggish

Summary

Companies operating in the Brazilian private sector signalled further output growth in May, taking the current expansionary sequence to nine months. However, the seasonally adjusted HSBC Brazil Composite Output Index fell from 51.5 in April to 51.2, indicating that private sector activity rose only slightly. Rates of expansion eased at both service providers and manufacturers.

The seasonally adjusted Services Business Activity Index posted 51.0 in May, down from 51.3. The latest reading indicated that activity across the Brazilian service sector rose modestly, and at a slightly weaker rate than in April. Evidence from panel members suggested that output increased in tandem with new business growth.

New orders placed at private sector companies in Brazil rose for the ninth consecutive month in May. The rate of expansion was, however, slight and the weakest since October 2012. Anecdotal evidence suggested that demand was maintained, but there were mentions of increased competition.

Companies operating in the Brazilian private sector indicated that employment levels were broadly unchanged in May. Jobs growth in the service sector was offset by cuts at manufacturers. Goods-producing firms mentioned that job losses reflected attempts to reduce costs. Conversely, service providers linked hiring to new contract wins.

Evidence of spare capacity was signalled as backlogs of work fell for the third successive month in May. Nonetheless, the rate of depletion was only marginal and the weakest in that sequence. Unfinished business levels fell moderately in the manufacturing sector, and marginally at services companies.

Input costs in the Brazilian private sector rose in May, as has been the case since August 2009. That said, the overall rate of cost inflation was moderate, and the slowest in one-and-a-half years. Manufacturing firms reported higher prices paid for raw materials, with particular mentions of steel and plastic. Service providers indicated that labour and raw material costs had increased over the month.

Part of the additional cost burden was passed on to clients, as average selling prices rose again in May. A solid increase was seen at manufacturers, whereas in the service sector output prices rose only slightly. Subsequently, the overall rate of charge inflation across the private sector was moderate.

Further optimism was signalled in the Brazilian service sector during May. Service providers expect that increased marketing, planned investment and forecasts of stronger demand will lead to higher output levels in the upcoming 12 months.

Comment

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

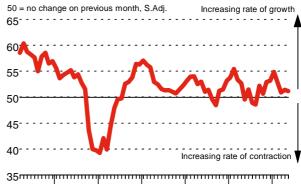
"The HSBC Services PMI Index ended May almost unchanged relative to April, receding from 51.3 to 51.0. The positive highlight this month is that input prices rose at the slowest pace since November 2011. However, overall economic activity in the service sector continued to expand at a slow pace, reinforcing concerns about downside risks to overall economic growth in 2013."

Key points

- Output increases in both the service and manufacturing sectors
- New order growth across the private sector weakest since last October
- Employment levels increase at service providers, but fall at manufacturers

Historical Overview

HSBC Brazil Composite Output Index



2007 2008 2009 2010 2011 2012

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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