HSBC Brazil Services PMITM (with Composite PMI data)

Output in Brazilian private sector contracts for first time in 11 months

Summary

The seasonally adjusted HSBC Brazil Composite Output Index fell below the 50.0 no-change threshold for the first time in 11 months during July. At 49.6, down from 51.1 in the previous month, the latest index reading was consistent with a marginal contraction of private sector output overall. Growth of business activity at services companies eased, while production at manufacturers fell for the first time since last August.

The seasonally adjusted Services Business Activity Index fell from 51.0 in June to 50.3 in July. The latest reading was indicative of a marginal increase in services output, and the joint-weakest in the current 11month expansionary sequence. Slower rises in business activity were linked by panellists to weaker gains in new work, an increasingly fragile economy and national protests.

New orders placed at private sector firms in Brazil fell slightly in July. Growth of new business across the service sector eased, with firms suggesting that demand was maintained but that political problems, tough economic conditions and the protests had all weighed on growth. Manufacturers registered a contraction in incoming new work, and largely commented that demand was weaker.

Evidence of spare capacity remained, as backlogs of work were depleted for the fifth month running and at quickest pace since September Manufacturing and services companies both signalled lower unfinished business levels during July.

Employment in the Brazilian private sector was unchanged in July. Modest job creation across the service sector was offset by job losses at manufacturers. Services firms reportedly increased their payroll numbers in line with forecasts of higher demand in the coming months. Meanwhile, manufacturers linked job cuts to a lack of new projects to replace finished work.

Amid evidence of higher input costs, prices charged by Brazilian private sector companies were raised in July. The rate of charge inflation was solid overall. Whereas manufacturers recorded the fastest rise in factory gate prices in five years, the rate of charge inflation at service providers was only slight and unchanged from June.

Input cost inflation across the private sector also accelerated, with firms commenting that a depreciation of the Brazilian real had resulted in higher prices paid for imported goods.

Services companies in Brazil remained upbeat about the prospects for activity growth in the coming 12 months, with the degree of optimism during July the strongest registered in nine months. Positive sentiment was attributed by monitored firms to hopes of an improvement in the Brazilian economy and predictions of higher tourism resulting from the football World Cup.

Comment

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

"The HSBC Services Business Activity Index receded from 51.0 in June to 50.3 in July, suggesting that economic activity in the service sector slowed almost to a halt last month. Although the index so far avoided falling below the 50 mark (which would indicate an outright contraction in economic activity), growth has been very sluggish since March, with the Business Activity Index remaining at or below 51 for the entire period. More importantly, the service sector appears to have softened further at the beginning of the second semester."

Key points

- Output growth across the service sector eases. while manufacturing production contracts
- New business received by private sector firms falls for first time in 11 months
- Private sector employment unchanged in July

Historical Overview

HSBC Brazil Composite Output Index



Sources: Markit, HSBC.

Further information on service sub-sectors is available in the main

report at: www.hsbc.com





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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.

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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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