HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Brazil Services PMI™ (with Composite PMI data)

Private sector output contracts for second month running

Summary

At 49.7 in August, up slightly from 49.6 in the previous month, the seasonally adjusted HSBC Brazil Composite Output Index posted below the 50.0 no-change level for the second successive month. Business activity fell marginally across both the manufacturing and the service sectors, with firms commenting on tough economic conditions and subdued underlying demand.

August's seasonally adjusted Services Business Activity Index dipped below the 50.0 no-change level for the first time in 12 months. Down from 50.3 in July to 49.7, the latest index reading was consistent with a marginal contraction of output levels across the country's service sector. Among the six monitored sub-sectors, Post & Telecommunication registered the sharpest decline.

Manufacturers recorded a further, albeit slower, decline in incoming new work, amid reports of increased competition from Chinese goods-producers and weaker demand. New business placed at services companies was broadly unchanged in August, after rising in each of the previous 11 months. Subsequently, new orders across the private sector as a whole contracted at a marginal pace during the latest month.

Workforce numbers across the Brazilian private sector fell for the first time in six months during August. Sector data pointed to a fifth consecutive monthly decline in manufacturing employment, whereas job creation at services firms eased to the weakest in the current six-month sequence of growth.

Evidence of spare capacity persisted in August, with unfinished business volumes in the private sector decreasing for the sixth consecutive month. Backlog depletion at manufacturing firms offset a marginal increase in the service sector.

Reflective of a continued depreciation of the Brazilian real versus the US dollar, cost burdens across the private sector rose at a marked and accelerated pace in August. Input prices at manufacturers rose at the sharpest rate in almost five years, while service providers registered the quickest increase in the year-to-date. Competitive pressures, however, persisted and output prices across the private sector overall were raised at a moderate pace. Manufacturers reported a faster increase in prices charged than services firms.

Services companies remained optimistic towards output growth in the year ahead, with firms linking positive sentiment to forecasts of stronger demand, the football World Cup and hopes of an improvement in the economy.

Comment

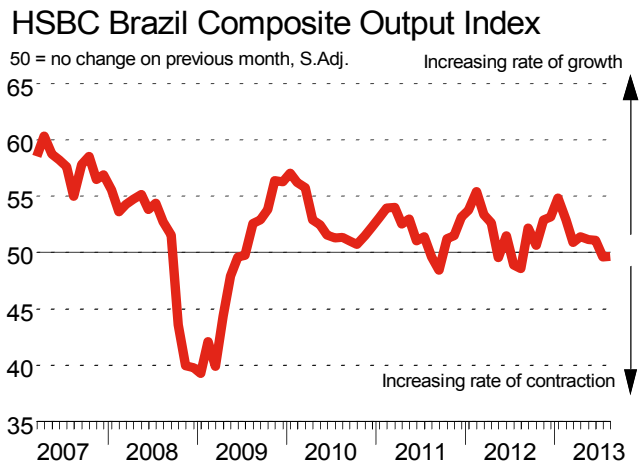
Commenting on the Brazil Services and Composite PMI™ surveys, Andre Loes, Chief Economist, Brazil, at HSBC said:

"The HSBC Brazil Services PMI Index fell below the 50 mark for the first time since August 2012, suggesting that the economy is slowing down. The headline index receded from 50.3 in July to 49.7 in August. Firms also reported that new business was practically flat relative to the previous month, and that that the inflation picture worsened, with both prices charged and input costs climbing at a faster pace than in July. On the other hand, the business expectations index unexpectedly jumped to its highest level since October last year."

Key points

- Marginal contraction of private sector output
- New orders placed at manufacturers decline, while a stagnation is recorded at services firms
- Private sector employment falls for first time in six months

Historical Overview



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.

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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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics