HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC Brazil Services PMI™ (with Composite PMI data)

Brazil's private sector economy gains momentum in October

Summary

With output expanding at faster rates in both the manufacturing and service sectors, the seasonally adjusted HSBC Brazil Composite Output Index climbed to its highest mark in eight months during October. Up from 50.7 in September to 52.0, the headline index was indicative of a moderate improvement in business conditions across Brazil's private sector.

The seasonally adjusted Brazil Services Business Activity Index remained above the crucial 50.0 threshold in October. Rising from 50.7 in September to 52.1, the latest index reading was the highest in eight months and indicated a moderate improvement in business activity across the country's service sector. Among the six covered sub-sectors, output growth was strongest at 'Other Services' and Hotels & Restaurants.

New business in the Brazilian private sector increased moderately in October. Nevertheless, the overall rate of growth was the fastest recorded since February. Incoming new work rose solidly in the service sector, while manufacturers recorded a stabilisation of new orders. Services companies commented on stronger demand and improved client confidence.

Employment growth was sustained in October, with the pace of job creation accelerating to the quickest in seven months. Services companies indicated that additional hiring reflected a solid rise in new business. Conversely, manufacturers reduced their workforce numbers, amid reports of recent weakness in order books.

Backlogs of work in Brazil's private sector fell for the eighth consecutive month in October. The rate of depletion was, however, slight and broadly unchanged from that seen one month previously. The latest decline in unfinished business levels was broad-based, with manufacturers and service providers both indicating contractions.

A further sharp rise in input costs was recorded across Brazil's private sector in October. Whereas the rate of cost inflation eased at services firms, manufacturers registered the fastest rise for five years. Companies operating in the Brazilian goods-producing sector reported higher prices paid for imported raw materials (associated with a depreciation of the real against the US dollar). Service providers highlighted higher raw material and labour costs. Similarly, the rate of charge inflation in the service sector eased to the slowest in 21 months during October, while manufacturers recorded the joint-fastest increase in factory gate prices in the survey history.

October data indicated that Brazilian service providers remained optimistic towards activity growth in the upcoming 12 months. The overall level of confidence remained robust, with the index gauging business expectations climbing to its highest reading in one-and-a-half years. Panellists expect output to expand in the year ahead in line with forecasts of stronger demand and hopes of an improvement in Brazil's economy.

Comment

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

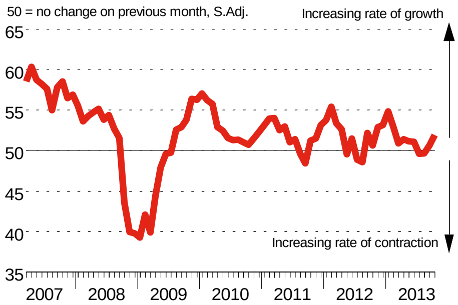
"The HSBC Brazil Services PMI surged in October, with the Business Activity Index rising from 50.7 in September to 52.1 in October – the highest level since February. Firms reported that new business expanded at the fastest pace since the beginning of the year, that business expectations rose to the highest level since April 2012 and that they were hiring at the strongest rate since June 2012. This is contrary to what other economic data had been pointing to in recent months (particularly in the case of the jobs market) and, if sustained, points to surprisingly strong economic growth in the fourth quarter."

Key points

- Growth of private sector output strongest in eight months
- New business expands solidly at services firms and stabilises at manufacturers
- Inflationary pressures cool in service sector

Historical Overview

HSBC Brazil Composite Output Index



Sources: HSBC, Markit.

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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