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HSBC Brazil Services PMI™

Solid increase in business activity during June, as client demand grows

Key findings:

- Both activity and new business increase in June, reversing the declines reported in May
- Rate of job creation strengthens to four-month high
- Inflationary pressures ease, with cost burdens rising at weakest pace in 2012 so far

June data signalled a solid increase in activity at Brazilian service providers, reversing the slight reduction recorded in May. Firms largely cited greater client demand, with new business also rising solidly over the month. Concurrently, the rate of job creation reached a four-month high in June, while input costs rose at the weakest pace in 2012 so far. Although companies remained optimistic regarding the one-year business outlook, confidence towards future growth was nonetheless the lowest since last September.

After adjusting for seasonal variation, the headline Business Activity Index – which is based on a single question asking survey respondents to report on the actual change in business activity at their companies compared to one month ago – posted above the 50.0 no-change mark in June, signalling an increase in activity at Brazilian service providers. At 53.0, up from 49.7 in May, the headline index indicated a solid expansion in business activity during June. Nonetheless, the average reading for the second quarter as a whole was 52.4 – its lowest since Q3 2011

Sector data indicated higher activity levels in five services sectors during the latest survey period, with the only exception being Hotels & Restaurants. The 'Other' category posted the strongest monthly rise in June, followed by Post & Telecommunications.

Firms working in Brazil's service sector received a larger volume of new business in June. The rate of growth was solid and in contrast to a marginal contraction reported in May. Approximately 20% of surveyed companies recorded an increase in new work

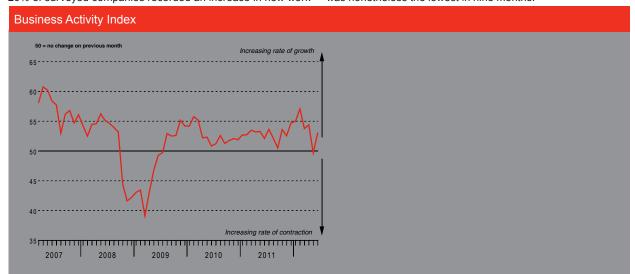
over the month (while 13% registered a decline), with greater client demand often commented on.

Outstanding business nonetheless fell for the second month running. Firms reported a solid depletion of backlogs of work during the latest survey period, with the rate of decline strengthening to its fastest pace since May 2010.

Reflective of the rise in new business, firms hired additional staff in June. Job creation has been registered in each month since August 2009. Approximately 12% of firms increased their employee numbers from one month previously, with the rate of growth solid and the strongest in four months.

Input costs faced by Brazilian service providers rose further during June. Panellists commented that larger salary bills and exchange rate movements had contributed to the overall rise in cost burdens. That said, the latest increase in costs was to a lesser extent than in May, with the rate of input price inflation the weakest in 2012 to date. Firms also raised their selling prices in June, as has been the case in each month since December 2009. Output charges rose solidly over the month, and at a rate stronger than the long-run series average.

In June, Brazilian service providers were optimistic regarding activity levels in 12 months' time. Forecasts of economic growth and new client wins are both expected to support the rise in business activity over the coming year. Although business sentiment towards future activity growth remained marked, it was nonetheless the lowest in nine months.



The survey uses a methodology identical to the HSBC Brazil Manufacturing PMl^{TM} . The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Brazilian services economy. Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. $Purchasing\ Managers'\ Index^TM\ and\ PMl^TM\ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.$

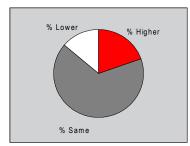




Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

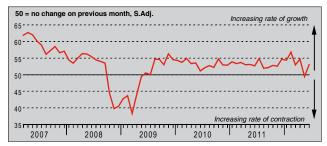


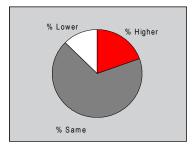


Following the slight reduction recorded in May, activity at Brazilian service providers increased in June. Approximately one in every five panellists reported higher activity levels over the month, with greater client demand often commented on. The seasonally adjusted Business Activity Index rose over three points to a reading above the long-run series average, and suggested a solid expansion overall. Five service sectors posted an increase in activity in June, with Hotels & Restaurants the only exception.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



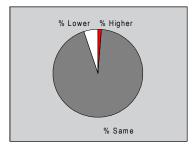


Incoming new work at Brazilian service providers increased in June, reversing the reduction reported one month previously. Firms that received a larger volume of new business (approximately 20%) generally attributed growth to greater client demand. A number of monitored companies also commented on recent marketing initiatives. New business increased solidly during the latest survey period, with the rate of growth broadly on trend for the series.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

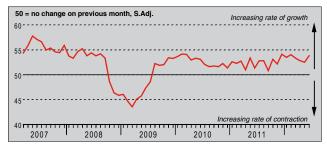


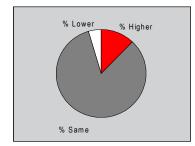


Backlogs of work at monitored companies fell for the second month running in June, as signalled by the seasonally adjusted Outstanding Business Index remaining below the 50.0 no-change mark. Moreover, with the index having fallen from that recorded in May, the rate of decline strengthened to the fastest pace in 25 months. All six service sectors posted a reduction in outstanding business during the latest survey period, with the strongest decline reported by Post & Telecommunication.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

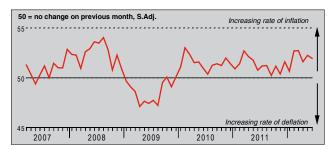


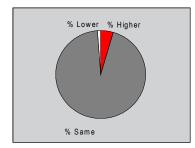


Employment in Brazil's service sector increased in June, continuing the sequence of job creation that has been registered in each month since August 2009. Approximately 12% of surveyed firms hired additional staff over the month (while 5% reduced their workforces), with a number of companies attributing this to the increase in client demand. Overall, staffing levels rose solidly during the latest survey period, with the rate of growth strengthening to a four-month high.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

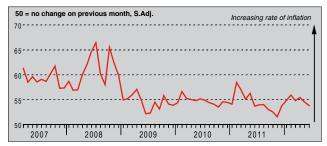


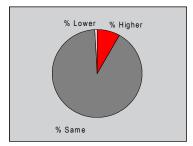


Brazilian service providers raised their selling prices further in June. Higher output charges have been reported in each month since December 2009. A number of respondents that raised their average tariffs largely commented on exchange rate movements. The seasonally adjusted Prices Charged Index signalled a solid rise in output prices in June but, having fallen since May, the index indicated a weaker rate of increase.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

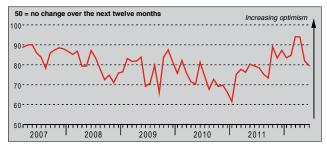


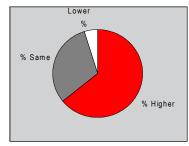


Input costs faced by firms working in Brazil's service sector increased in June, as has been the case in each month since data collection began in March 2007. Panellists commented that larger salary bills and exchange rate fluctuations had both contributed to the overall rise in cost burdens during the latest survey period. Although the latest rise in input prices was solid, the rate of inflation nonetheless slowed for the second month running to its weakest pace in 2012 so far.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?





Firms were optimistic towards activity levels over the next 12 months in June. Approximately 64% of respondents expect activity to increase over the coming year, while 5% predict a decline. Monitored companies commented that forecasts of economic growth and new client wins are both expected to support the rise in business activity. Business sentiment towards future activity growth was marked, despite having fallen to its lowest level since September 2011.

Notes on the Data and Method of Presentation

The Brazil Services PMI[™] covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. 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.

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