HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Brazil Services PMI™

Activity and new business growth remains strong in January

Key findings:

- Business activity increases at fastest pace since March 2010
- Confidence regarding future activity growth remains marked
- Rate of input price inflation strengthens to eight-month high

January data signalled a further expansion in Brazilian service sector activity, with the rate of growth the fastest in 22 months. Firms largely linked the rise in business activity to greater client demand, with new order volumes also increasing strongly since December. Concurrently, Brazilian service providers hired additional staff, as has been the case since August 2009, while the rate of input price inflation strengthened to an eight-month high in January.

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 that separates growth from contraction in January. At 55.0, up slightly from 54.8 in December, the latest figure signalled that activity at Brazilian service providers rose at the fastest rate since March 2010.

Firms generally attributed the rise in business activity to greater demand for their services. The volume of new business received by Brazilian service providers increased in January, continuing the trend that began in June 2009. The latest rise in new work was strong and above the long-run series average, despite being slightly weaker than that reported in December.

The increase in total activity was faster than the rise in new business. Subsequently, panellists were able to reduce backlogs of work for the second month running in January. However, outstanding business fell only marginally, with the rate of decline weaker than that recorded in the previous survey period.

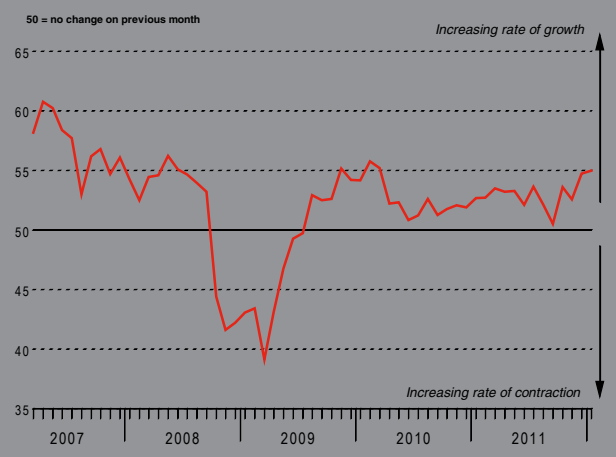
Employment in Brazil's service sector increased in January, extending the current period of job creation to 30 months. Approximately 7% of monitored companies hired additional staff during the latest survey period, while 3% reduced their headcounts. Although the overall rate of employment growth eased since December, it nonetheless remained solid and faster the long-run series average.

Brazilian service providers registered higher input prices during the latest survey period. Input costs have risen in each month since data collection began in March 2007. Panellists reported that a wide range of inputs increased in cost during January, with a number of monitored companies particularly mentioning larger salary bills. Overall, the rate of input price inflation was strong, and the fastest since last May.

Respondents partly passed on greater cost burdens to clients by raising their output charges in January. Average selling prices have increased in each of the past 26 survey periods, but the latest rise was only marginal and weaker than that registered in the previous survey period.

Firms signalled optimism towards activity over the next 12 months during the latest survey period. Approximately 71% of Brazilian service providers anticipate higher business activity over the coming year, generally linking predicted expansion to forecasts of further economic growth. Confidence regarding future increases in activity remained marked and above the long-run series average in January, but was slightly lower than that reported in December.

Business Activity Index



The survey uses a methodology identical to the HSBC Brazil Manufacturing *PMI*™. 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*™ and *PMI*™ 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.

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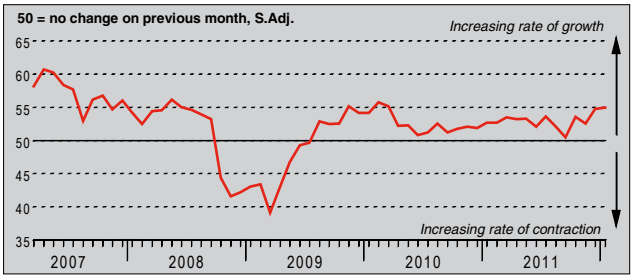
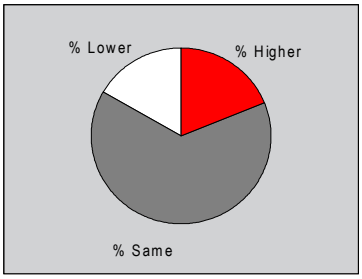
Business Activity Index

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.

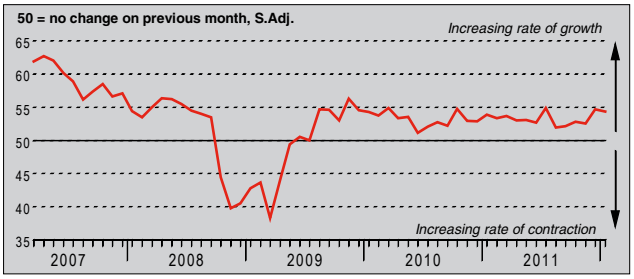


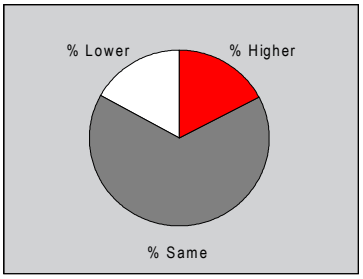


Brazilian service providers reported a further rise in activity during January, extending the current period of growth to 30 months. Adjusted for seasonal factors, the rate of growth strengthened to the fastest since March 2010. Firms generally linked higher activity levels to greater client demand during the latest survey period. The Post & Telecommunications sector led the overall expansion in January, closely followed by Hotels & Restaurants.

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.

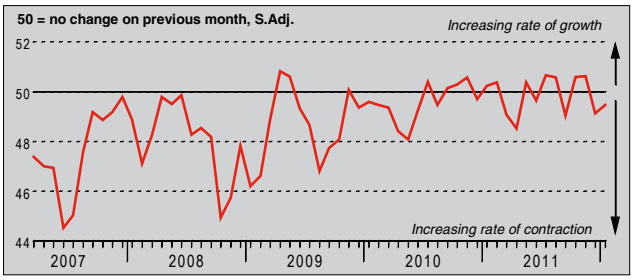


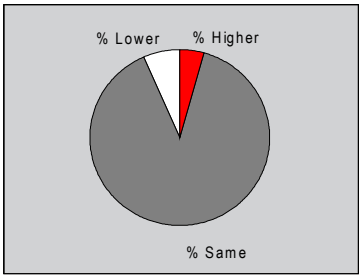


Firms operating in Brazil's service sector received a larger volume of new business in January. This was signalled by the seasonally adjusted New Business Index registering above the 50.0 no-change mark that separates growth from contraction. Panellists generally attributed the rise in new work to greater demand for their services. Despite the rate of increase easing slightly since December, the overall rise in new business remained strong during January.

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.

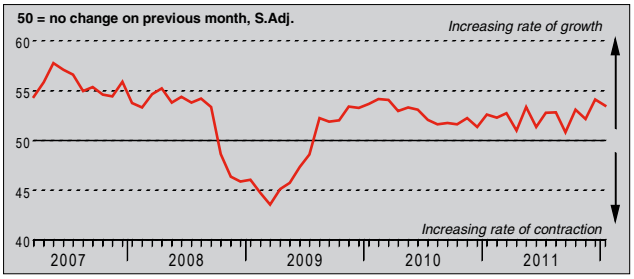


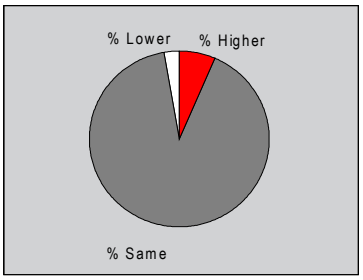


Outstanding business fell for the second consecutive month in January. Approximately 7% of respondents reported a depletion of backlogs during the latest survey period, compared with 4% that registered an accumulation. Panellists generally attributed the falls in outstanding business to faster activity growth. That said, work-in-hand fell only marginally overall in January, with the rate of decline weaker than that recorded in December and slower than the long-run series average.

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).

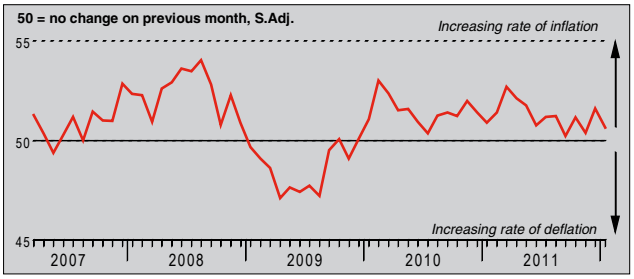


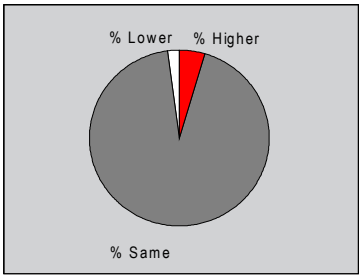


Employment in Brazil's service sector increased further at the start of 2012. Job creation has been recorded in each month since August 2009, with the latest rise in staff headcounts solid and above the long-run series average. Where a rise in employment was registered, firms largely commented on the increase in client demand. All six service sectors posted employment growth in January, with firms in the Hotels & Restaurants sector expanding their workforces to the greatest extent.

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.

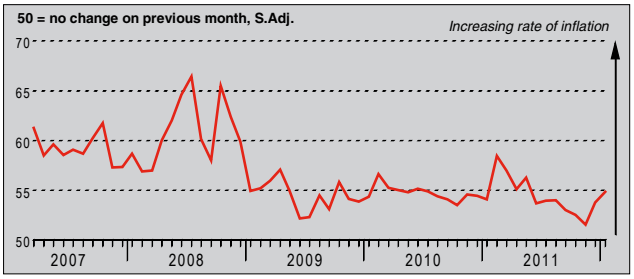


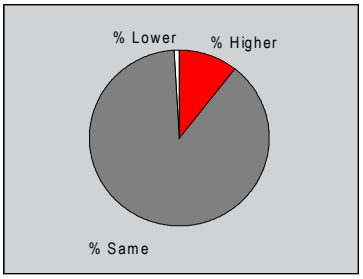


Average selling prices increased in January, taking the current period of output price inflation to 26 months. Anecdotal evidence provided by panellists suggested that they raised charges to partly pass on higher input costs to clients. Nevertheless, the latest increase in output prices was only marginal, and weaker than that registered in the previous survey period.

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.

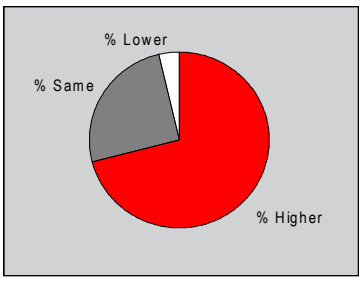




Brazilian service providers reported a further rise in input prices during January. This was signalled by the seasonally adjusted Input Prices Index posting above the neutral 50.0 threshold. Approximately 11% of surveyed firms recorded larger cost burdens in January (while less than 1% registered a reduction), with panellists particularly reporting an increase in salary bills. Overall, the rate of input price inflation strengthened since December and was the fastest since last May.

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?



In January, firms operating in Brazil's service sector were optimistic regarding activity over the next 12 months. The majority of monitored companies (around 71%) anticipate higher activity over the coming year. Panellists suggested that economic growth will likely be the main contributor to the rise in business activity. Confidence towards activity growth remained marked and above the long-run series average in January, despite being lower than that recorded in December.

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.

Warning