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HSBC Brazil Services PMI™

Business activity increases at strongest pace since July 2007

Key findings:

- Both activity and new business rise markedly in February
- Backlogs of work accumulate at fastest rate in survey history
- Confidence towards future activity growth improves since January

February data signalled a marked expansion of business activity in Brazil's service sector. Notably, the rate of growth quickened since January to the strongest in over four-and-a-half years. Firms generally linked the increase in activity to greater client demand, with the volume of new business also increasing sharply during the latest survey period. Concurrently, backlogs were accumulated at the fastest pace in the survey history, while expectations for future activity growth remained elevated in February.

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 – registered above the 50.0 no-change mark that separates growth from contraction in February. At 57.1, up from 55.0 in January, the index signalled a marked rise in business activity, which was the strongest since July 2007.

Sector PMI data indicated that activity increased in all six service sectors during February. Expansion was led by firms in the Hotels & Restaurants sector, followed by the 'Other' and Post & Telecommunication categories.

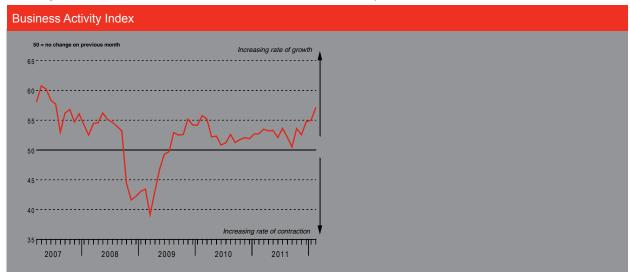
Brazilian service providers generally linked the rise in business activity to greater client demand. Approximately 24% of survey respondents received a larger volume of new business in February, compared with exactly 12% that reported lower new work. Overall, the increase in new business was marked, and the strongest since December 2007.

In contrast to the previous two months of decline, outstanding business at Brazilian service providers increased in February. Panellists who reported a rise in work-in-hand generally cited sharp gains in new business. Overall, backlogs of work were accumulated at the fastest pace since data collection began five years ago.

Employment in Brazil's service sector increased further during the latest survey period. Approximately 13% of monitored companies hired additional staff in February, with the overall rate of job creation strong and faster than the long-run series average.

Input costs faced by Brazilian service providers increased in February, with panellists particularly mentioning larger salary bills. Moreover, the rate of input price inflation was strong and the fastest in nine months. Firms passed on greater cost burdens to clients by raising their selling prices in February. Although output charges increased at a weaker pace than that for input costs, it was nonetheless the strongest rise since last March.

In February, firms working in Brazil's service sector expected activity to increase over the coming 12 months. Almost 72% of survey respondents forecasted future activity growth, while less than 2% predicted a contraction. A number of monitored companies reported that further improvements to the economy will continue to support business activity over the coming year. Overall, confidence towards activity growth was both higher than that registered in January and the long-run series average in February.



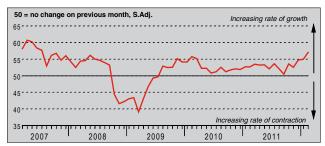
The survey uses a methodology identical to the HSBC Brazil Manufacturing PMl^{TM} . The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure 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.



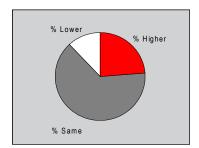


Brazilian service providers reported a further rise in business activity during February, with panellists largely linking expansion to greater client demand. Notably, the latest increase in activity was marked, with the seasonally adjusted Business Activity Index posting its highest reading since July 2007. All six service sectors covered registered higher activity levels in February, with companies operating in the Hotels & Restaurants category recording the strongest increase overall.

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.



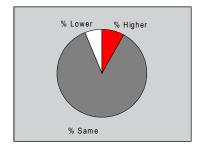


Incoming new work at Brazilian service providers increased in February, extending the current period of growth to 33 months. Approximately 24% of firms reported larger volumes of new business, while exactly 12% registered a decline during the latest survey period. Where gains were reported, panellists generally commented on greater client demand. Overall, the latest rise in new business was marked, with the rate of increase the fastest since December 2007.

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.



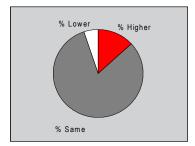


In contrast to declines reported in each of the past two months, outstanding business at Brazilian service providers increased in February. Anecdotal evidence provided by panellists attributed higher work-in-hand to sharp increases in new business volumes. Overall, backlogs of work were at the fastest rate in five years of data collection.

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).



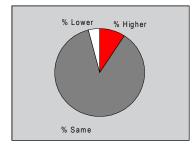


Employment in Brazil's service sector increased for the thirty-first consecutive month in February. Approximately 13% of monitored companies hired additional staff during the latest survey period (while 5% reduced their headcounts), and generally cited gains in new business. Overall, the rate of job creation quickened since January to a strong pace, and remained faster than the long-run series average.

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.

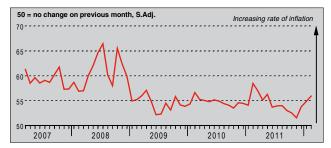


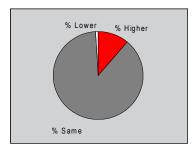


Firms working in Brazil's service sector raised their selling prices further in February. This was signalled by the seasonally adjusted Prices Charged Index registering above the neutral 50.0 mark, as has been the case since December 2009. Moreover, the latest index reading indicated a solid rise in output prices, with the rate of inflation the fastest since March 2011. Sector PMI data suggested that output charges increased across all six service sectors in February, with the strongest rise in selling prices reported in the Financial Intermediation category.

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.

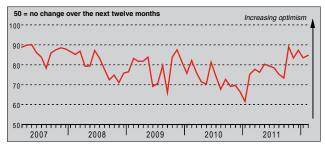


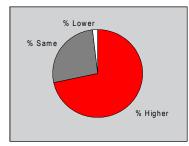


Input costs faced by Brazilian service providers increased strongly during February. Approximately 11% of respondents reported higher input prices during the latest survey period, compared with only 1% of panellists that registered a decline. A number of monitored companies particularly mentioned larger salary bills in February. Overall, the rate of input price inflation strengthened since January to the fastest pace in nine months.

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?





Confidence regarding future business activity remained marked in February, with almost 72% of firms expecting higher activity levels in 12 months' time. On the whole, panellists suggested that forecasts of further economic growth will continue to support anticipated gains in activity over the coming year. Business sentiment towards future expansion of business activity was also higher than that registered in the previous survey period, and above the long-run series average overall.

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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