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# HSBC Brazil Services PMI™

Activity growth slows in March, but remains solid overall

#### **Key findings:**

- Solid expansions in both activity and new business in March
- Job creation sustained for thirty-second consecutive month
- · Confidence regarding future activity growth highest in survey history

March data signalled further increases in both activity and new business at Brazilian service providers, with firms generally citing greater client demand. Although the rates of growth were solid, they were nonetheless the weakest in four months. That said, expectations regarding future activity growth were marked, with overall confidence the strongest since data collection began in March 2007.

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 March. At 53.8, the index signalled a solid increase in activity, continuing the trend that has been registered since August 2009. However, down from 57.1 in February, the latest figure was the lowest in four months.

Five service sectors reported an increase in activity in March, with Transport & Storage the only sector that registered a decline. The Hotel & Restaurants sector led the latest expansion, closely followed by the 'Other' category.

Brazilian service providers generally linked the latest rise in activity to greater client demand. Approximately 21% of surveyed firms received a larger volume of new business in March (while 17% reported a decline), with growth solid overall. However, the latest rise in new work was to a lesser extent than in February, and the weakest since last November.

Brazilian service providers generally reported no change in

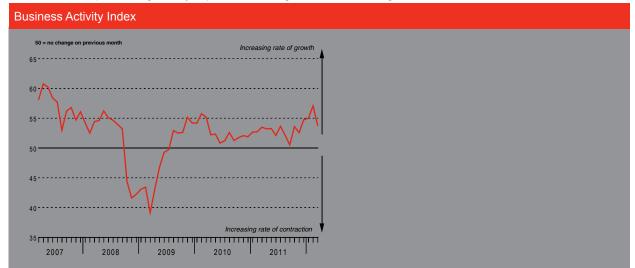
outstanding business during March. This followed the strongest accumulation of work-in-hand in the survey history in February.

Employment in Brazil's service sector increased in March, extending the current period of job creation to 32 months. Where higher staff headcounts were reported, panellists largely commented on recent new business growth. Although the latest rise in staffing levels was solid and stronger than the long-run series average, it was at a four-month low in March.

Panellists reported a further rise in input costs during the latest survey period. Higher raw material prices were particularly mentioned by respondents as contributing to the overall rise in cost burdens. The rate of input price inflation was strong, despite remaining slower than the long-run series average in March.

Service providers in Brazil raised their selling prices in March. Firms generally linked higher charges to passing larger cost burdens on to clients during the latest survey period. The rate of output price inflation was unchanged from February's 11-month high, but nonetheless remained weaker than the rise in input prices.

Expectations regarding activity levels over the next 12 months were optimistic in March. The vast majority of respondents (approximately 90%) expect activity to increase over the next year, with forecasts of both economic growth and greater client demand likely to support the anticipated rise in business activity. Notably, confidence was marked and the strongest since data collection began in March 2007.



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.

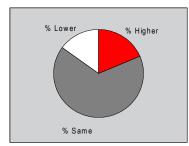




#### **Business Activity Index**

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.



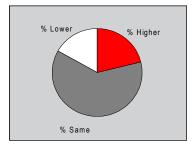


Latest PMI data signalled that activity at Brazilian service providers increased in March, continuing the trend that has been registered since August 2009. Approximately 19% of surveyed firms reported higher activity, with greater client demand often cited by panellists. Although the latest expansion was solid overall, it was nonetheless the weakest in four months. Five service sectors posted an increase in activity in March, with Transport & Storage the only category to see a decline.

#### 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.



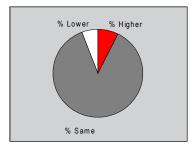


Firms working in Brazil's service sector received a larger volume of new business in March. Where an increase in new work was reported, monitored companies generally commented on greater demand for their services. New business has increased in each of the past 34 months, with the latest rise solid overall. That said, the rate of new order growth was the weakest in four months and slower than the long-run series average.

# 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.



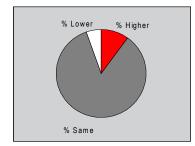


The seasonally adjusted Outstanding Business Index registered close to the 50.0 no-change mark in March, indicating that work-in-hand at Brazilian service providers was largely unchanged from that reported in February. Firms that accumulated outstanding work generally attributed this to recent new business growth. Meanwhile, a number of monitored companies that recorded lower backlogs commented that recent business disputes were largely resolved during the latest survey period.

## **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).



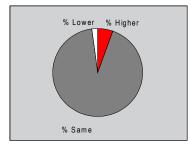


Employment in Brazil's private service sector increased further in March. Job creation has been registered in each month since August 2009. Exactly 10% of respondents hired additional staff during the latest survey period, generally attributing this to recent new business growth. Overall, employment growth was solid and faster than the historic series average, but nonetheless the weakest since last November. The Post & Telecommunications sector recorded the strongest increase in staff headcounts in March, closely followed by the 'Other' category.

#### 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.

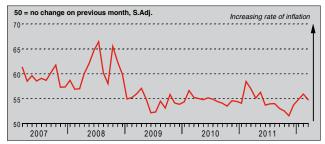


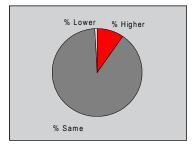


The average price charged by service providers working in Brazil increased further in March. Moreover, selling prices rose solidly, with the rate of output price inflation unchanged from the 11-month high registered in February. Anecdotal evidence provided by panellists generally suggested that greater cost burdens were passed on to clients during the latest 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.

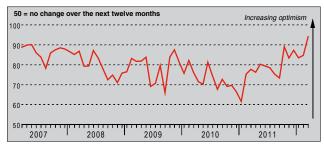


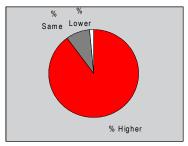


Input costs faced by Brazilian service providers increased strongly in March. Panellists have reported larger cost burdens in each month since data collection began in March 2007. Nearly 10% of surveyed firms reported an increase in input costs (while less than 1% registered a decline), with raw materials particularly mentioned as having risen in price. That said, the rate of input price inflation eased since February and was slower than the long-run series average.

# **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 March, firms working in Brazil's service sector expect activity levels to increase over the next 12 months. Respondents commented that forecasts of both economic growth and greater client demand will likely support the anticipated rise in business activity over the coming year. Notably, confidence towards future expansion of activity were marked, with the Business Expectations Index increasing to its highest level since data collection began in March 2007.

## 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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