HSBC *Purchasing Managers' Index™* 2012

compiled by markit

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HSBC Brazil Services PMI™

Business activity falls for first time since July 2009 during May

Key findings:

- Marginal declines in both activity and new business
- Confidence towards future activity growth at eight-month low
- Slowest rate of job creation since last November

May data indicated lower activity levels at Brazilian service providers, with firms generally citing weak client demand. Although activity fell only marginally over the month, it was nonetheless the first decline since July 2009. New business also fell in May, while employment increased at its weakest rate in six months. That said, companies expect activity to increase over the coming year. Business sentiment remained marked in May, but nonetheless fell to its lowest level 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 – fell below the 50.0 no-change mark in May, suggesting an overall decline in activity at Brazilian service providers. This was the first sub-50 reading in 34 months. However, at 49.7, down sharply from 54.4 in April, the index was only slightly below the neutral threshold and signalled only a marginal rate of contraction overall.

Sector data indicated a decline in business activity in three monitored categories in May, with Hotels & Restaurants posting the strongest fall overall. Transport & Storage meanwhile recorded no change in activity from one month earlier.

Brazilian service providers generally linked the decline in activity to weak client demand. The volume of new business received by monitored companies fell in May, albeit marginally. This was the first decline in new business since May 2009, and contrasted with solid growth recorded in April.

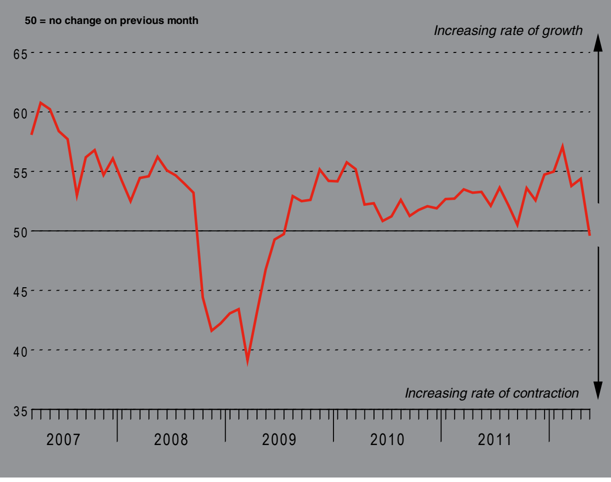
Outstanding business at monitored companies was broadly unchanged from a month earlier in May. The vast majority of respondents (approximately 93%) reported no change in work-in-hand from that recorded in the previous survey period.

Employment in Brazil's service sector increased further in May, with approximately one in every ten panellists hiring additional staff since April. Anecdotal evidence largely linked job creation to recent new business growth. Staffing has increased in each month since August 2009, with the latest rise moderate overall. That said, the rate of job creation slowed to a six-month low in May.

Firms reported a further rise in input prices during the latest survey period, with fuel and wages both particularly mentioned as having increased in cost over the month. Although the rate of input price inflation was strong, it nonetheless remained slower than the long-run series average and was the weakest in 2012 so far. Average selling prices charged by companies increased solidly in May, with the latest rise strengthening slightly since April.

Business expectations towards activity over the next 12 months remained positive in May. Almost 69% of surveyed firms anticipate activity to be higher over the coming year, with forecasts of economic growth and higher demand both predicted to support the rise in business activity. Though marked, confidence towards future activity growth fell from the record levels registered in the previous two months, and was at its lowest level in eight months.

Business Activity Index



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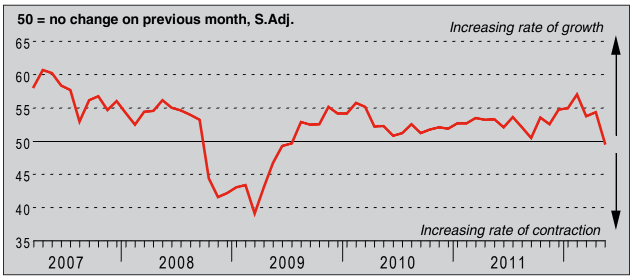
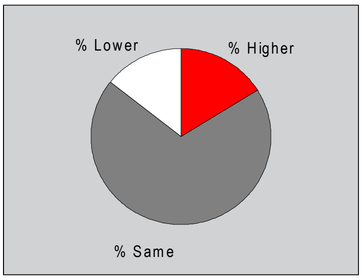
Business Activity Index

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.

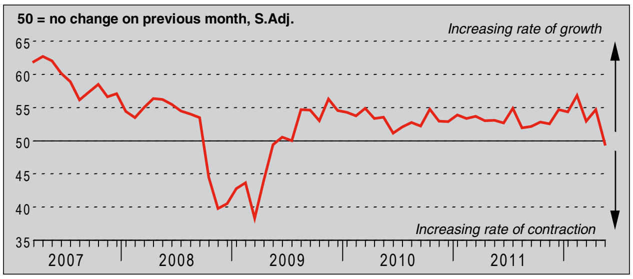


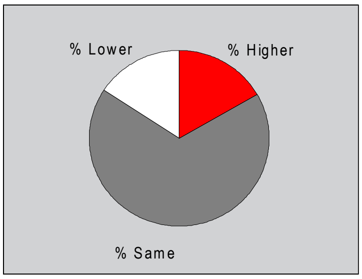


The seasonally adjusted Business Activity Index fell below the 50.0 no-change mark in May, suggesting a lower level of activity in Brazil's service sector. Although the fall was only marginal, with the index only slightly below the neutral threshold, it was still the first contraction since July 2009. Panellists generally attributed the reduction in activity to weak client demand. Three sectors recorded lower activity levels during the latest survey period, with Hotels & Restaurants posting the sharpest month-on-month 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.

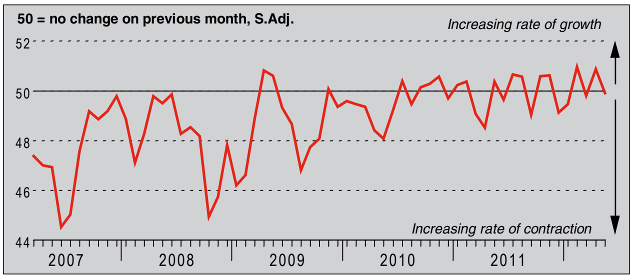


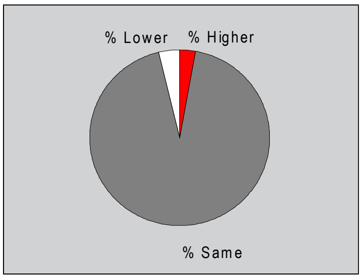


After adjusting for seasonal variation, the volume of new business received by Brazilian service providers fell during May. This was signalled by the seasonally adjusted New Business Index posting below the 50.0 no-change mark that separates growth from contraction. Notably, the index fell to the greatest extent in 38 months, to indicate the first reduction in new business since May 2009. Firms that reported a reduction in new work generally attributed this to weak client demand.

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.

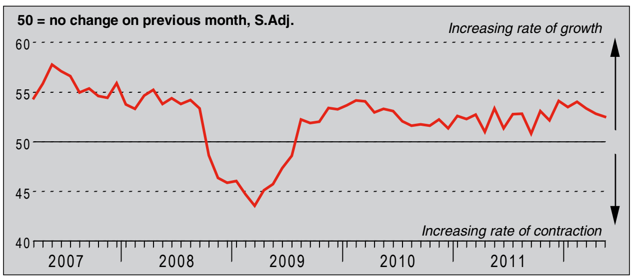


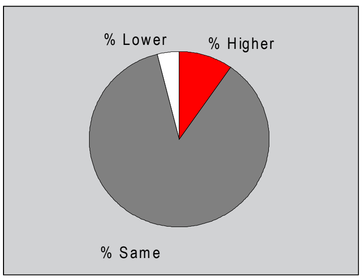


Outstanding business at firms working in Brazil's service sector was broadly unchanged from a month earlier in May. This contrasted with a moderate rate of backlog accumulation recorded in April. The vast majority of monitored companies (approximately 93%) reported no change in the volume of work-in-hand 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).

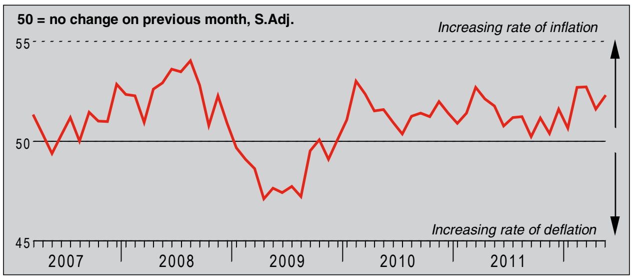


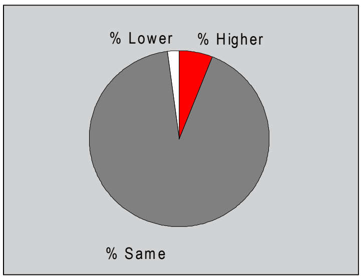


Employment in Brazil's service sector increased further in May, taking the current period of job creation to 34 months. Approximately one-tenth of survey respondents hired additional staff over the month, with a number of monitored companies citing the recent expansions in new business. That said, almost 4% of firms reduced their workforces during the latest survey period. Overall, the rate of employment growth was moderate, albeit the weakest since last November.

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.

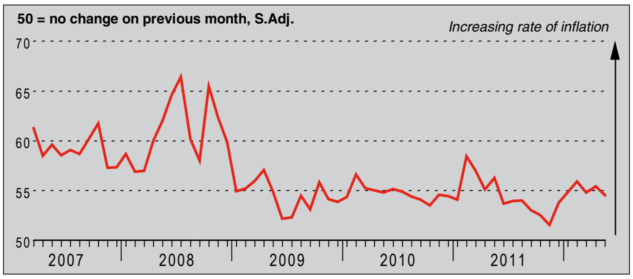


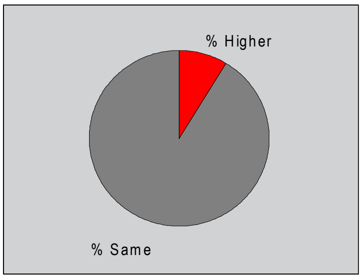


The average price charged by Brazilian service providers increased further in May. Higher selling prices have been reported in each month since December 2009. Moreover, with the seasonally adjusted Prices Charged Index having risen from April, the rate of output price inflation strengthened to a solid pace overall. Firms that raised their output charges in May (exactly 6%) generally commented on adjusting their selling prices in line with costs.

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.

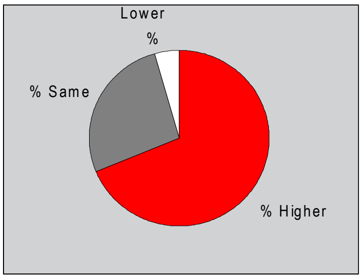




Following the trend that has been registered in each month since data collection began in March 2007, input costs faced by monitored companies increased in May. Fuel was particularly mentioned by panellists as having increased in price, although a number of respondents also reported that larger salary bills and unfavourable exchange rates contributed to the overall rise in costs. Although the rate of input price inflation was strong, it nonetheless remained weaker than its long-run series average and was the slowest 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?



Brazilian service providers were optimistic towards activity levels over the next 12 months in May. Approximately 69% of surveyed firms expect activity to be higher over the coming year, with forecasts of economic growth and higher client demand both predicted to support the overall rise in business activity. Although confidence regarding future expansion of activity remained marked, it nonetheless fell sharply from the record highs registered in the previous two months 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.

Warning