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HSBC Brazil Services PMI™

Business activity declines at fastest rate since May 2009

Key findings:

- Brazilian service providers report modest reduction in activity in July
- Slowest rate of job creation in ten months
- Lowest level of optimism towards future activity growth in a year-and-a-half

July data indicated a modest decline in activity at Brazilian service providers – the second contraction in the past three months. Firms generally linked the latest reduction to weak demand, with new business rising only marginally over the month. Concurrently, employment increased only modestly and at the weakest pace since September 2011. Although firms expect activity to increase over the next 12 months, the level of optimism was the lowest since January 2011.

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 with one month ago – registered below the 50.0 no-change mark that separates growth from contraction in July. At 48.9, down from 53.0 in June, the index signalled the second monthly reduction in three months. Moreover, the index was at the lowest level since May 2009, and indicated a modest rate of decline overall.

Sector data signalled that business activity declined in four service sectors during July. Renting & Business Activities posted the greatest reduction in activity over the month. Meanwhile, the Post & Telecommunication and 'Other' categories recorded growth, but this was only marginal in both cases.

Brazilian service providers generally attributed the reduction in activity to weak client demand. Although the volume of new business received by monitored companies increased for the second month running in July, the rate of growth was only marginal and weaker than the long-run series average.

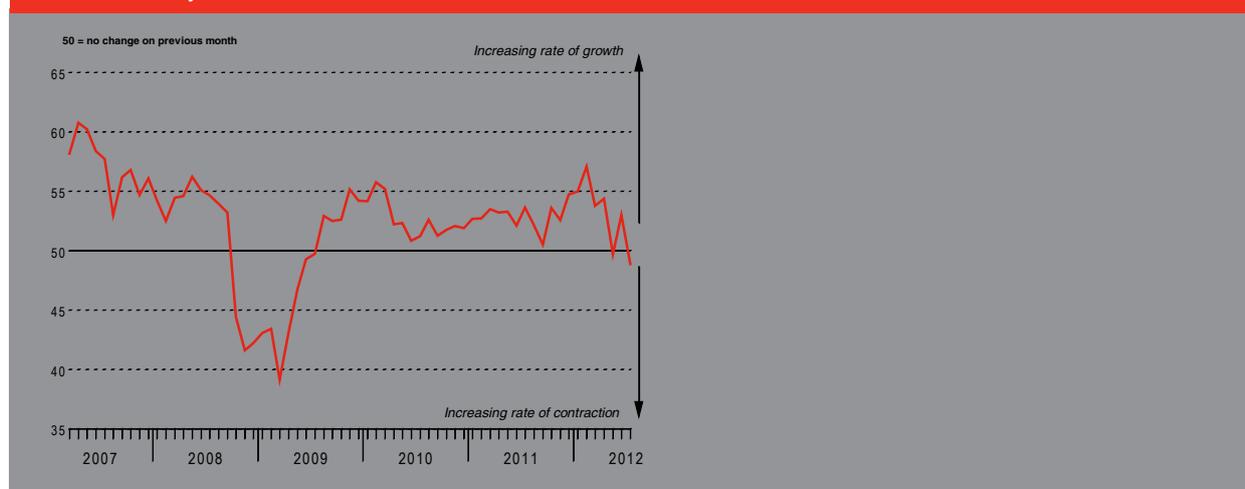
Outstanding business at monitored companies fell for the third consecutive month in July. Approximately 5% of surveyed firms reported a reduction in the amount of work-in-hand (while 3% recorded an increase), with the rate of backlog depletion modest overall.

Employment in Brazil's service sector increased further during the latest survey period. Job creation has been reported in each month since August 2009. Where an increase in headcounts was reported, panellists generally attributed this to recent increases in new business. That said, the rate of employment growth was only modest and the slowest in ten months.

Monitored companies reported higher input costs in July, as has been the case since data collection began in March 2007. Respondents commented that both higher raw material prices and exchange rate fluctuations contributed to the overall rise in costs. Overall, the rate of input price inflation was strong and the fastest since April. Average selling prices also rose over the month, with the increase in output charges moderate and broadly similar to that recorded for June.

Expectations regarding activity levels in one year's time remained positive in July. Approximately one in every two surveyed companies anticipate activity to be higher, with forecasts of economic growth and greater client demand predicted to support the rise in business activity. However, the level of optimism fell for the fourth month running to its lowest since January 2011.

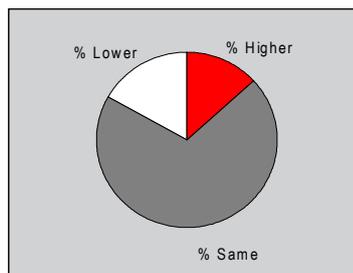
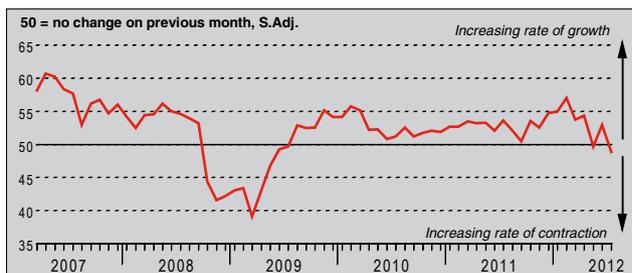
Business Activity Index



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.

Business Activity Index

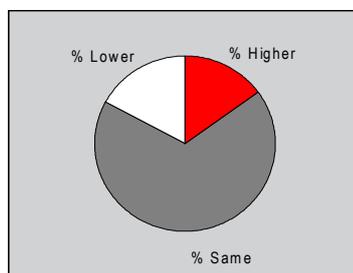
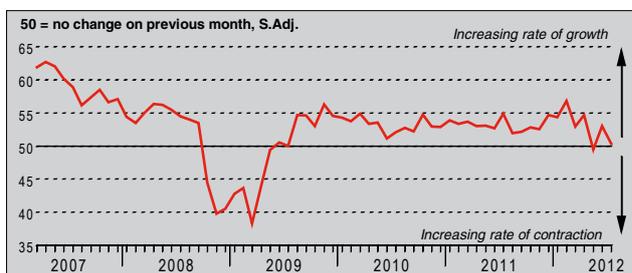
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity at Brazilian service providers declined during July, as indicated by the seasonally adjusted Business Activity Index posting below the 50.0 no-change mark. The index has registered below the neutral threshold in two out of the past three months, with the latest reading the lowest since May 2009. Firms that reported lower activity levels compared with June generally linked this to weaker client demand. Four service sectors posted a reduction in activity during the latest survey period, with the strongest rate of decline reported in Renting & Business Activities.

New Business Index

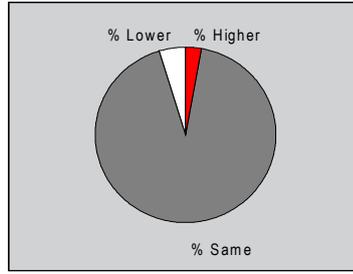
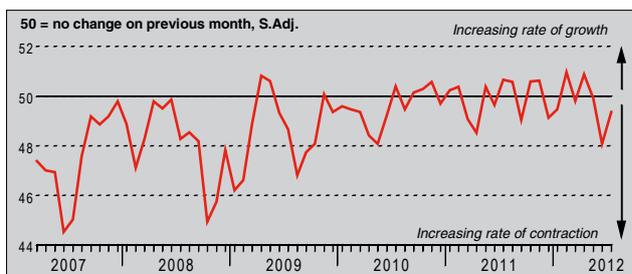
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



After adjusting for seasonal variation, the volume of new work received by firms working in Brazil's service sector increased for the second consecutive month in July. However, the rate of growth was only marginal and slower than the long-run series average. A number of monitored companies attributed the rise in new business to an increase in client demand, but this was limited to some extent by worsening economic conditions.

Outstanding Business Index

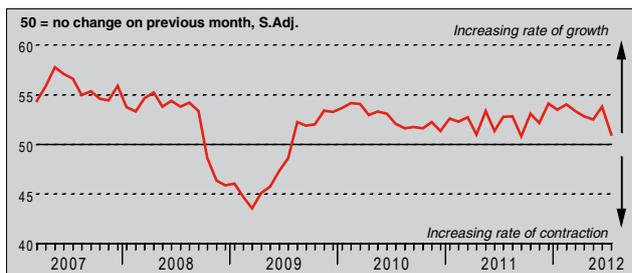
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work at Brazilian service providers fell for the third month running in July, with the seasonally adjusted Outstanding Business Index remaining below the 50.0 no-change mark. Approximately 5% of surveyed firms reported a reduction in work-in-hand over the month, while 3% recorded an increase. The latest decline in outstanding business was only modest, however, with the index rising since June to a level above the long-run series average.

Employment Index

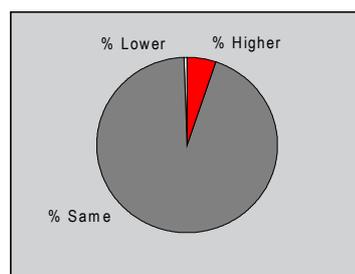
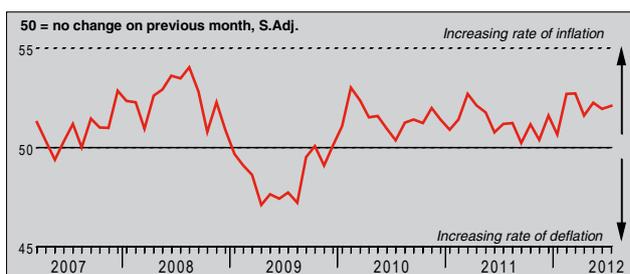
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Continuing the trend that has been registered in each month since August 2009, employment in Brazil's service sector increased in July. Firms that raised their staffing levels since June (approximately 6%) generally linked this to recent increases in new business. That said, the rate of job creation was only modest and slower than the historic series average. Post & Telecommunications posted the strongest increase in headcounts during the latest survey period, while reductions were reported for both the Financial Intermediation and 'Other' categories.

Prices Charged Index

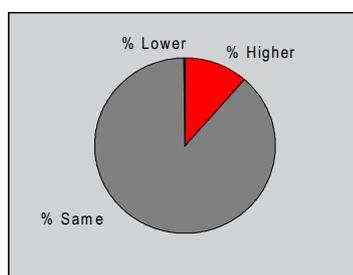
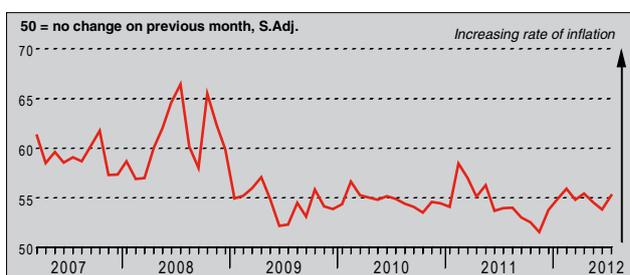
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average selling prices charged by Brazilian service providers increased in July. Higher output charges have been reported in each month since December 2009. Approximately 5% of respondents raised their output prices (while less than 1% reduced their charges), with larger cost burdens generally passed on to clients. A number of monitored companies also commented on exchange rate fluctuations. Selling prices rose moderately during July, with the rate of inflation slightly faster than that for June.

Input Prices Index

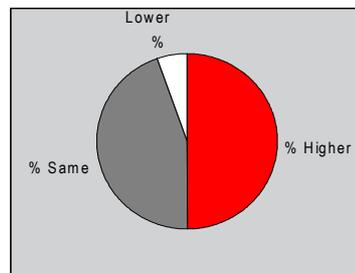
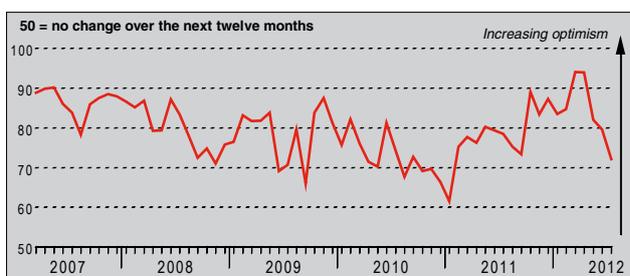
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Monitored companies reported a further increase in input costs in July. This was indicated by the seasonally adjusted Input Prices Index remaining above the 50.0 no-change mark, as has been the case since data collection began in March 2007. Panellists generally reported that higher fuel prices and exchange rate fluctuations contributed to the overall rise in costs. Moreover, with the index having climbed since the previous survey period, it signalled the strongest rate of input price inflation since April.

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 in 12 months' time. Almost one in every two surveyed firms expect business activity to be higher over the coming year, with forecasts of economic growth and greater client demand generally predicted to support the rise in activity. Nonetheless, confidence towards future growth fell for the fourth consecutive month in July to its lowest level in a year-and-a-half.

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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