Embargoed until: 10:00 (SAO PAULO), 5 February 2013

HSBC Brazil Services PMI™

Business activity expands at fastest rate in 11 months

Key findings:

- Sharp rise in output
- Growth in new business accelerates
- Level of positive sentiment joint-weakest in survey history

Business activity in the Brazilian service sector rose during January, amid a strong rebound in new order growth. Output and new total business both increased sharply. Meanwhile, inflationary pressures persisted as both input and output prices rose again. Further optimism was signalled, but the degree of confidence was joint-weakest in nearly six years of data collection to date

The headline Business Activity Index 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. Readings above 50.0 indicate expansion and readings below 50.0 signal contraction. After adjusting for seasonal variations, the index posted 54.5 in January, up from the reading of 53.5 in December. This signalled that business activity grew sharply and at the strongest pace in 11 months. Increased service sector output has been recorded for five successive months.

The volume of incoming new work at services firms in Brazil rose for the fifth consecutive month in January, amid evidence of stronger demand. With all six monitored categories recording increases, growth in new business was sharp and the fastest recorded since February last year.

Despite growing new orders, service providers in Brazil signalled falling volumes of work-in-hand (but not yet completed). But with only 3% of respondents indicating lower levels of unfinished

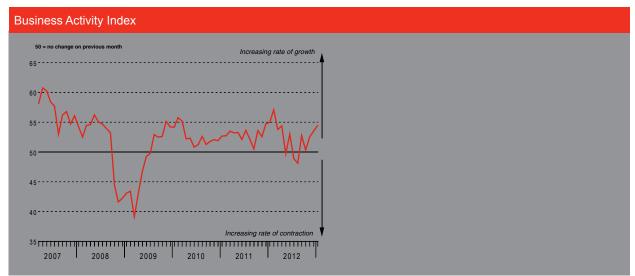
business and the vast majority (96%) reporting no change, the overall pace of depletion was only fractional.

As has been the case since September 2012, employee headcounts in the Brazilian service sector rose in January. That said, the rate of job creation was only slight and the slowest in the current sequence.

Meanwhile, input prices rose amid reports of higher raw material costs and unfavourable exchange rate conditions. Although solid, the rate of increase eased from December. Cost inflation has been recorded in each month since the survey began in March 2007.

Consequently, average selling prices rose for the thirty-eighth month running in January. But, charges were increased only moderately as strong competition prevented firms from passing on the full extent of their cost burdens to clients. Of all six monitored categories, five signalled higher output prices, with the Other Services sector posting broadly no change.

January data highlighted further optimism in the Brazilian service sector, as has been the case throughout the series history. Companies expect overall activity at their units to increase in the coming year in line with planned business expansions, the signing of new contracts and anticipated rises in demand. Although strong, the degree of positive sentiment was joint-weakest in 71 months of data collection so far.



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.

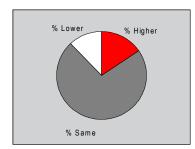




Business Activity Index

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.



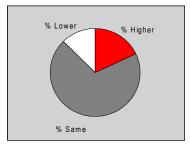


Continuing the trend that started in September 2012, business activity in the Brazilian service sector increased during January. The rise in output was sharp, and the quickest in 11 months. Moreover, the seasonally adjusted Business Activity Index posted above the series average. Almost 16% of monitored companies reported output growth, citing higher levels of new business.

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.

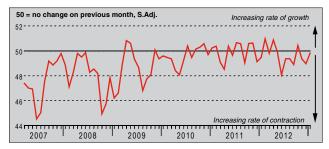


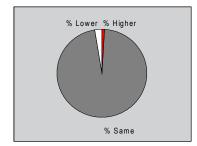


January data signalled higher volumes of incoming new work at service providers in Brazil, marking a five-month sequence of expansion. With all six service sectors recording increased new business, the overall rate of growth was sharp and the fastest since February 2012. Anecdotal evidence suggested that stronger demand resulted in higher levels of new total business.

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.



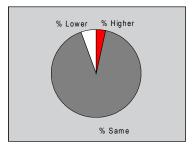


As has been the case since November last year, backlogs of work in the Brazilian service sector fell during January. Only 3% of panellists reported lower levels of unfinished business, however, the vast majority (96%) indicated no change from the previous month. Subsequently, the overall pace of depletion was only fractional and the slowest in the sequence.

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).



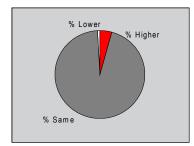


Service companies in Brazil signalled rising payroll numbers during January. The Employment Index adjusted for seasonal variations posted above the no-change threshold which separates expansion from contraction for the fifth successive month. However, the latest reading indicated that employment levels expanded only slightly and at the slowest rate in the current sequence. Panel members stated that staffing levels were increased in tandem with new business growth.

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.

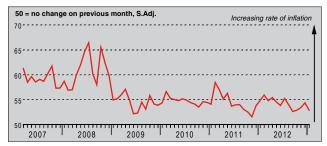


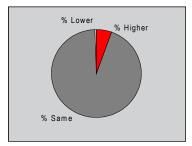


Output prices in the Brazilian service sector rose during January, amid reports of higher input costs and unfavourable exchange rates. Average selling prices have increased in each of the past 38 months, but the latest rate of inflation was only modest. That said, five of all six monitored sectors registered charge inflation, with the Other Services category indicating no change.

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.



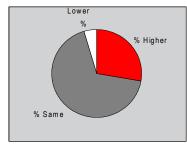


Input prices in the Brazilian service sector increased solidly during January, but at a slower rate than in December. Almost 6% of the survey panel indicated higher costs, while the vast majority (94%) reported no change. Moreover, the seasonally adjusted Input Prices Index posted below the series long-run trend. Anecdotal evidence suggested that input costs rose in tandem with higher raw material prices. Cost inflation has been recorded throughout the 71-month series 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?





Further optimism was signalled in the Brazilian service sector during January. Although strong, the degree of confidence was joint-weakest in 71 months of data collection so far. Monitored firms expect overall activity at their units to increase in tandem with planned business expansions, the signing of new contracts and anticipated rises in demand. Almost 28% of survey respondents forecast rises in activity for the 12-month outlook, while only 5% expect a fall.

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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