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HSBC Brazil Services PMI™

Business activity increases at slowest rate in current seven-month sequence of growth

Key findings:

- Output rises fractionally
- Rate of expansion in new orders eases to five-month low
- Further optimism signalled

Activity growth in the Brazilian service sector eased further during March. Output rose for the seventh consecutive month, but only fractionally and at the slowest pace in that sequence. Incoming new work increased slightly, but at the slowest rate in five months. Nevertheless, service providers remained optimistic towards output growth and hired additional staff. Meanwhile, the rates of input and output price inflation were broadly unchanged from those registered last month.

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. After adjusting for seasonal variations, the index posted 50.3 in March, down from 52.1 in February. The latest reading indicated that the rate of expansion was only fractional and the weakest in the current seven-month sequence of growth. Nonetheless, the average reading for the first quarter of the year (52.3) was broadly in line with that seen in Q42012 (52.1).

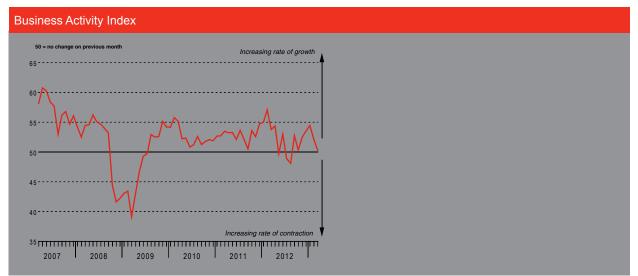
In March, three of the six monitored service sub-sectors posted higher activity levels compared with one month previously. The Hotels and Restaurants category reported the strongest increase, followed by Post and Telecommunication and the 'Other Services' sectors.

Companies operating in the Brazilian service sector received a larger volume of new business in March, marking a seventh successive increase. That said, the rate of expansion was only slight and the weakest in five months. Those respondents reporting a higher level of new orders mentioned greater domestic demand. Employment increased during March, following a fall seen in February. Approximately 4% of survey participants hired additional staff, while 94% indicated no change from the previous month. Subsequently, the overall rate of job creation was only slight.

Backlogs of work at services companies in Brazil were depleted in March. However, with only 3% of respondents indicating lower volumes of work-in-hand (but not yet completed) and 96% reporting no-change from one month previously, the overall rate of decrease was only modest.

Input costs faced by Brazilian service providers increased during March, as has been observed in each month since data collection began in March 2007. All six monitored sectors indicated higher purchase costs. Consequently, the rate of cost inflation was solid, and little-changed from February. Firms passed on greater cost burdens to clients by raising their selling prices. Output charges increased only moderately, however, and at a broadly similar pace to that seen last month.

Strong optimism was signalled in March, although confidence eased from February. 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.



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.

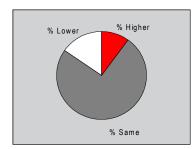




Business Activity Index

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.



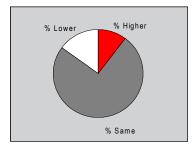


Business activity in the Brazilian service sector rose during March. The seasonally adjusted Business Activity Index posted above the no-change mark of 50.0 – which separates growth from contraction – for the seventh consecutive month, but indicated only a fractional expansion, and one that was the slowest in that sequence. Panel members that reported higher output mentioned increased 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.



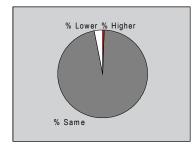


March data signalled rising levels of incoming new work in the Brazilian service sector, the seventh increase in successive months. However, the New Business Index adjusted for seasonal factors was at a five-month low and indicated only a slight rise. Of all six monitored sectors, five registered new business growth, with the only exception seen at Renting and Business Activities. Anecdotal evidence suggested that domestic demand was strong.

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.



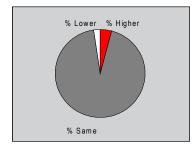


Marking a five-month sequence of depletion, backlogs of work at service providers in Brazil fell during March. Whereas 3% of survey participants indicated lower volumes of work-in-hand (but not yet completed), the vast majority (96%) reported no change from February. Subsequently, the overall rate of decline was only slight. The seasonally adjusted Outstanding Business Index averaged 49.3 in the first quarter of the year, broadly unchanged from the last quarter of 2012 (49.6).

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).

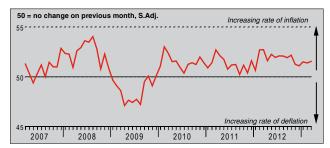


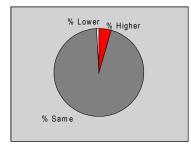


In contrast to a fall registered last month, payroll numbers in the Brazilian service sector increased during March, amid evidence of higher levels of incoming new work. That said, the rate of job creation was only slight and the seasonally adjusted Employment Index posted below the series average (52.1). Out of the six monitored services categories, five registered increased employee headcounts, with the Renting and Business Activities sector indicating no-change from February.

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.



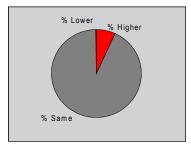


As has been observed in each month since December 2009, average selling prices in the Brazilian service sector rose during March. However, with only 4% of service providers indicating higher output prices and the vast majority (95%) reporting no change, the overall rate of charge inflation was moderate. According to panellists, input costs increased over the month but competition had prevented firms from passing on to clients the full burden of cost inflation.

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.



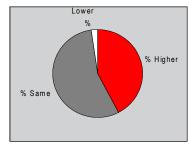


Prices paid for inputs by Brazilian service providers increased during March. The rate of cost inflation was solid, and little-changed from that seen in February. That said, the seasonally adjusted Input Prices Index posted well below the long-run series trend (56.2). All six monitored sectors posted higher purchase costs, with the fastest rise registered at Hotels and Restaurants, followed by Renting and Business Activities. Input prices have increased throughout the six years of data collection.

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 by Brazilian services companies during March. The degree of positive sentiment remained strong, but was slightly weaker than that signalled one month previously. Monitored firms indicated that forecasts of economic growth, anticipated rises in demand and increased marketing are all set to result in higher activity in the upcoming 12 months.

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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