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HSBC Brazil Services PMI™

Service sector growth in Brazil remains sluggish

Key findings:

- Output expands for eight consecutive month, but only modestly
- Slight rise in new business
- · Degree of positive sentiment weakest in three months

Growth of business activity in the Brazilian service sector remained weak in April. New business inflows and output both rose at modest rates, albeit slightly faster than those seen in March. Looking ahead, optimism towards output growth was robust, but the level of confidence fell to a three-month low. Meanwhile, both input and output price inflation cooled.

The seasonally adjusted Business Activity Index – a single question asking survey respondents to report on the actual change in business activity at their companies compared with one month ago – registered above no-change mark of 50.0 for the eight month running. At 51.3 in April, up from 50.3 in March, the index signalled a modest improvement in activity levels across the country's service sector. Furthermore, the latest reading was below the average reading for the first quarter of the year (52.3).

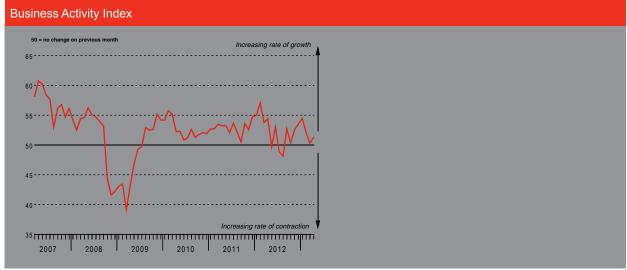
Sector PMI data indicated that output rose in four out of six monitored categories, with the Post and Telecommunications and the 'Other Services' sub-sectors signalling contractions. Expansion was led by Financial Intermediation, followed by Transport and Storage.

April data pointed to a further rise in new business placed at service providers in Brazil. The overall pace of expansion accelerated from March, but remained modest. Panel members that signalled higher levels of incoming new work mentioned strong demand. Growth in new business has now been sustained for eight consecutive months.

Pressure on operating margins continued, as indicated by a solid rise in input costs and only a slight increase in average selling prices. Nevertheless, the rate of cost inflation was the weakest registered since last September. Similarly, the rate of charge inflation was the slowest in four months. All six monitored service sub-sectors indicated higher input and output prices, with the fastest rises in both cases noted at Renting and Business Activities. Monitored firms indicated that raw material and labour costs had increased in price, but that competition for new contracts had prevented them from fully passing on to clients the increased cost burden.

Staffing levels in the Brazilian service sector rose for the second successive month in April. Nonetheless, the rate of job creation was only marginal and eased from March. Employee headcounts increased in five of the six monitored categories, with a fall noted at Hotels and Restaurants. Meanwhile, backlogs of work fell during April, marking a six-month sequence of depletion. But, with around 1% of panellists signalling a lower level of outstanding business and the vast majority (98%) indicating no change, the overall rate of contraction was slight and the slowest in four months.

Further optimism was signalled by service providers in Brazil. The degree of positive sentiment was, however, the weakest in three months. Panellists expect stronger demand to lead to activity growth in 12 months' time. Nonetheless, there were concerns regarding the European crisis.



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 for the eighth consecutive month during April. The seasonally adjusted Business Activity Index indicated that the rate of expansion was modest, but faster than that seen in March. Around 15% of monitored companies indicated higher output, citing new contract wins. Conversely, almost 9% of panellists indicated a lower level of business activity.

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.



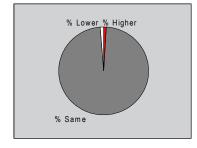


Firms operating in the Brazilian service sector signalled higher levels of incoming new work in April, marking an eight-month sequence of growth. The overall rate of expansion remained slight, but was faster than in March. From all six monitored services categories, four indicated increased new business, with the fastest growth registered at Financial Intermediation, followed by Transport and Storage, Hotels and Restaurants and Renting and Business Activities respectively.

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.



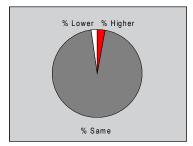


As has been observed in each month since last November, unfinished business levels held by services companies in Brazil fell during April. Approximately 1% of surveyed firms reported higher volumes of work-in-hand (but not yet completed), whereas the vast majority (97.7%) signalled no change. Subsequently, the overall rate of depletion was only slight and eased to the slowest in four months.

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).



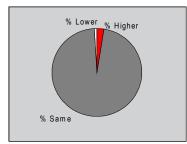


Payroll numbers in the Brazilian service sector rose for the second consecutive month in April. However, the rate of job creation was marginal and eased from March. Employment levels increased in five of the six monitored service sub-sectors, with only Hotels and Restaurants registering a fall. Almost 3% of panel members reported higher staffing levels, citing activity 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.



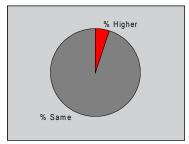


Prices charged by companies operating in the Brazilian service sector rose during April. That said, the rate of inflation was only slight and the slowest in four months. Furthermore, the Prices Charged Index adjusted for seasonal factors was in line with the long-run series average (51.1). Almost 3% of panellists reported higher output prices and mentioned that input costs had increased. Average selling prices have risen in each month since December 2009.

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.



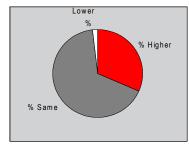


April data pointed to increased input prices at service providers in Brazil, amid reports of higher labour and raw material costs. The rate of inflation was solid, but the seasonally adjusted Input Prices Index was at a seven-month low. All six monitored sub-sectors signalled higher input costs, with the fastest rise seen at Renting and Business Activities. Concurrent cost inflation has been recorded throughout the 74-month series history.

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?





Service providers in Brazil remained optimistic towards activity growth in 12 months' time during April. The degree of positive sentiment was, however, the weakest recorded since January. Anecdotal evidence suggested that forecasts of stronger demand are anticipated to result in higher output in the upcoming 12 months. Almost 32% of panellists expect higher activity, while 2% predict 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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