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HSBC Brazil Services PMI™

Growth in service sector activity eases during May

Key findings:

- Output and new business both expand at modest rates
- Employment increases for third successive month
- Rate of input price inflation weakest since November 2011

Reflective of higher levels of incoming new work, output in the Brazilian service sector rose in May. Business activity and new orders expanded only modestly, however, with the rates of growth easing slightly from April in both cases. Encouragingly, firms hired additional staff. On the price front, input costs rose moderately, and at the weakest rate since November 2011. Increased competition, however, had prevented firms from fully passing on to clients the full burden of cost inflation, and charges rose only slightly as a result.

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 – posted 51.0 in May, down from 51.3. The latest reading indicated that activity across the Brazilian service sector rose modestly and at a slightly weaker rate than in April. Evidence from panel members suggested that output increased in tandem with new business growth.

Incoming new work expanded for the ninth successive month in May, albeit modestly. Sector data indicated that new business levels increased in four of the six monitored services categories with Transport & Storage leading the rise, followed by Financial Intermediation, Hotels & Restaurants and Renting & Business Activities respectively. Surveyed companies indicated that demand was maintained.

Evidence of spare capacity was signalled as backlogs of work

fell for the seventh consecutive month in May. Nevertheless, the rate of depletion was only marginal and the joint-weakest in that sequence. Whereas unfinished business levels fell in both the Financial Intermediation and Transport & Storage sub-sectors, no change was seen at Hotels & Restaurants, Post & Telecommunication and the Other Services categories.

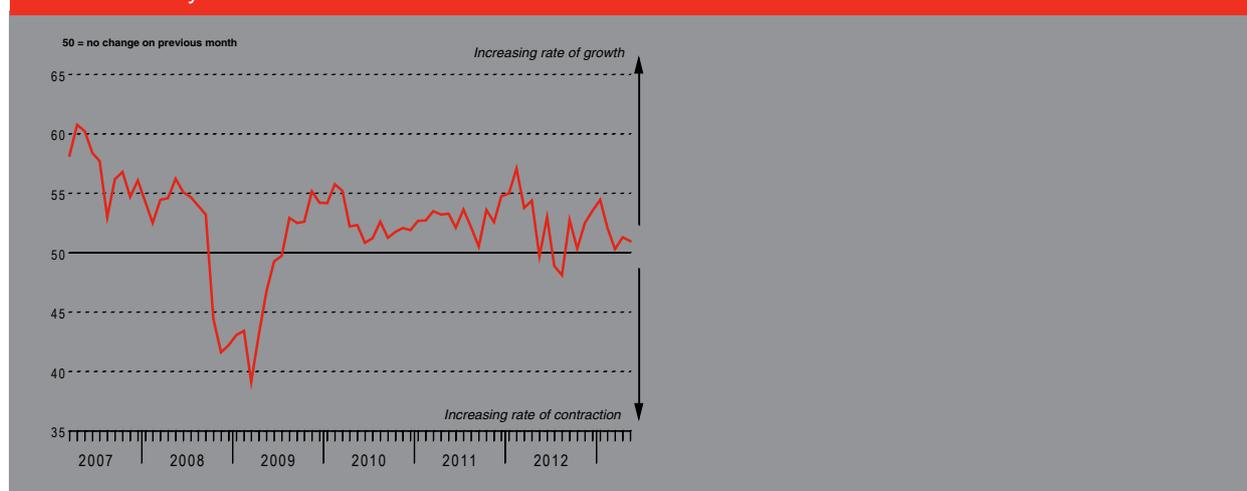
Prices paid for inputs by service providers in Brazil rose during May, amid reports of higher labour and raw material costs. However, the overall rate of cost inflation was moderate and eased to the weakest since November 2011. Moreover, the index posted well below the long-run series average (56.1). Input prices have increased throughout the 75 months of data collection to date.

Part of the additional cost burden was passed on to clients, as average selling prices rose again in May. But, with the vast majority of survey participants reporting no change, the overall rate of charge inflation was only slight and little-changed from April. The latest rise was the forty-second in successive months.

Payroll numbers in the Brazilian service sector rose during May, marking a three-month sequence of job creation. The pace of increase was, however, only modest. Panel members linked job hiring to new contract wins.

Further optimism was signalled in the Brazilian service sector during May. Service providers expect that increased marketing, planned investment and forecasts of stronger demand will lead to higher output levels in the upcoming 12 months.

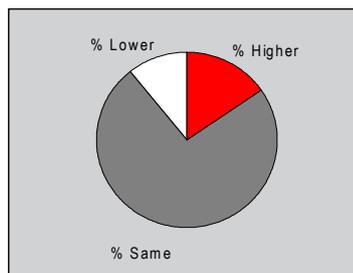
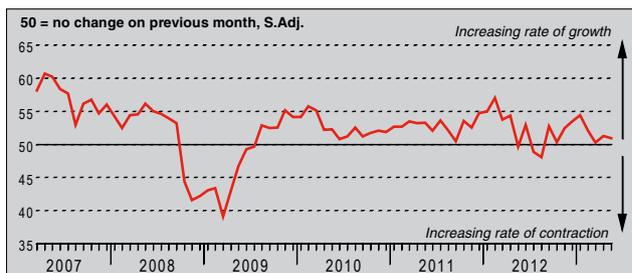
Business Activity Index



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

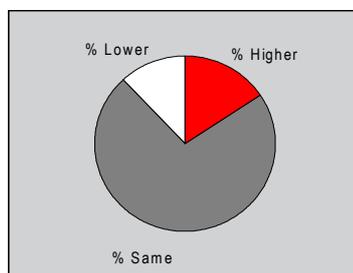
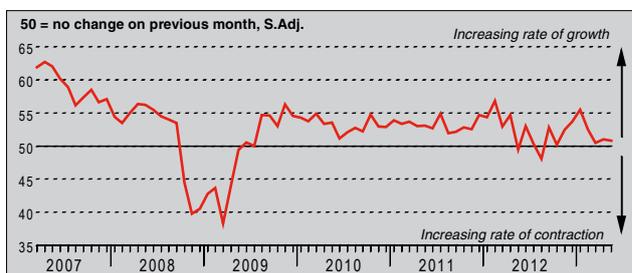
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Brazilian service sector rose for the ninth consecutive month in May. The rate of growth eased from April and remained modest. Around 15% of monitored companies reported increased output levels, citing higher volumes of incoming new work. Conversely, almost 11% of service providers signalled lower business activity at their units.

New Business Index

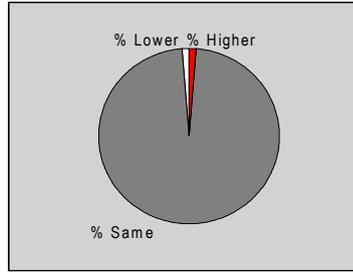
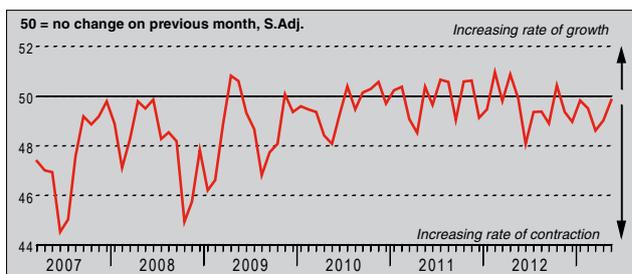
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



May data pointed to a further rise in the level of new orders placed at Brazilian service providers, taking the current expansionary sequence to nine successive months. Anecdotal evidence suggested that demand was maintained. However, the rate of expansion was only slight and eased fractionally from April. New order growth was registered in four of the six monitored sub-sectors, with the fastest rise seen at Transport & Storage, followed by Financial Intermediation, Hotels & Restaurants and Renting & Business Activities respectively.

Outstanding Business Index

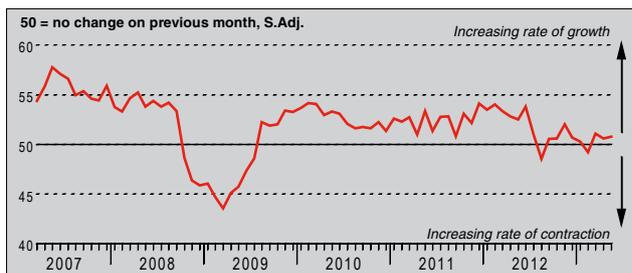
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Service providers in Brazil indicated that outstanding business levels fell during May, marking a seven-month sequence of depletion. The overall rate of decline as indicated by the seasonally adjusted Outstanding Business Index was only marginal, and the joint-weakest in that sequence. From all six monitored sectors, two registered declines, namely Financial Intermediation and Transport & Storage. Backlogs of work were broadly unchanged at Hotels & Restaurants, Post & Telecommunication and the Other Services categories.

Employment Index

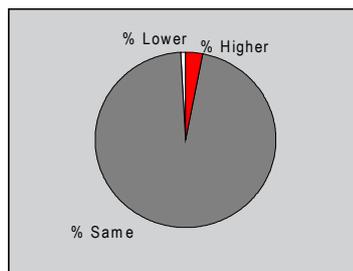
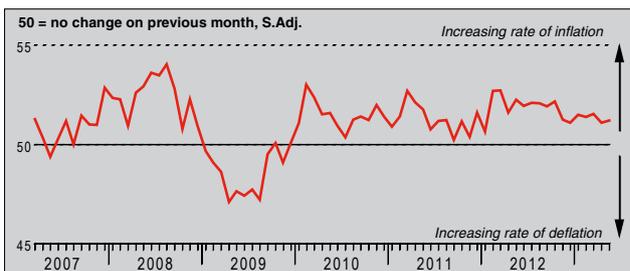
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



For the third month running, staffing levels in the Brazilian service sector rose in May. But, with 5% of panel members signalling higher payroll numbers and the vast majority (92%) indicating no change, the overall rate of job creation was only modest. Monitored firms reported that additional hiring reflected new contract wins. Five of six services categories registered higher employment levels, with Post & Telecommunication leading the rise. Workforces fell in the Hotels & Restaurants sub-sector.

Prices Charged Index

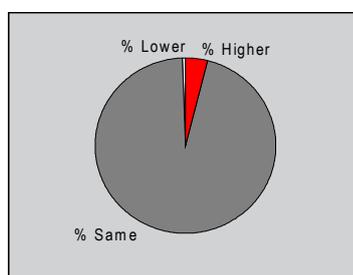
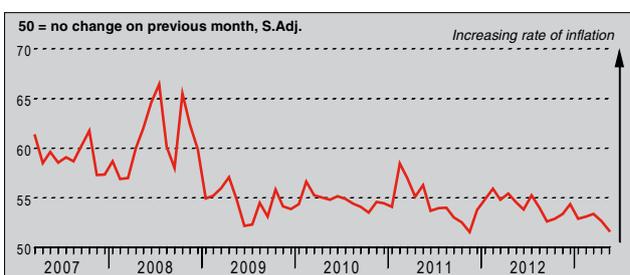
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Firms operating in the Brazilian service sector indicated increased output prices during May, amid evidence of rising costs and taxes. Approximately 3% of the survey panel reported higher prices charged, but the vast majority (96%) indicated no change from one month previously. Consequently, the overall rate of charge inflation was only slight and little-changed from April. Output prices have increased throughout the past two-and-a-half years.

Input Prices Index

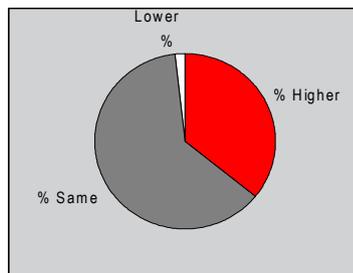
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



As has been the case since data collection began in March 2007, input prices in the Brazilian service sector rose during May. Panellists largely commented on higher labour and raw material costs. The rate of cost inflation was, however, only moderate and the weakest since November 2011. The seasonally adjusted Input Prices Index fell for the second month running and was well below the long-run series average (56.1).

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 service providers in Brazil during May. Moreover, the degree of positive sentiment strengthened from April. Almost 36% of monitored firms expect overall activity to increase in the upcoming year, in contrast to 2% that anticipate a decline. Forecasts of stronger demand, increased marketing and planned investments are all expected to drive output growth in 12 months' time.

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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