

Embargoed until: 10:00 (SAO PAULO), 3 July 2013

HSBC Brazil Services PMI™

Service sector output expands for tenth month running

Key findings:

- Modest rises in output and new business
- Input price inflation accelerates, but charges increase at slower rate
- Degree of positive sentiment strongest in eight months

June data highlighted a further rise in new business across the Brazilian service sector. Despite being modest, the latest expansion led firms to raise their output levels and workforce numbers. Optimism was signalled, and to the greatest extent in eight months. On the price front, input cost inflation accelerated from May, but tariffs rose at the slowest rate since January 2012.

The seasonally adjusted Business Activity Index is a single question asking survey respondents to report on the actual change in business activity at their companies compared with one month ago. At 51.0 in June, unchanged from May, the latest reading indicated that service sector output in Brazil expanded modestly. New work was largely mentioned by panellists as the reason behind increased output levels.

Incoming new work in the Brazilian service sector rose for the tenth consecutive month during June. Around 15% of companies reported higher levels of new orders, while almost 13% noted a fall. Consequently, the pace of growth was modest and little-changed from May.

Sector data indicated that output and new business increased across four of the six monitored categories, namely Financial Intermediation, Hotels & Restaurants, Renting & Business Activities and Transport & Storage. In both cases, Transport & Storage recorded the strongest growth.

Reflective of new business growth, services firms in Brazil added to their payroll numbers in June. A number of companies

linked the rise in staffing levels to planned business expansions. However, the overall pace of job creation was only slight and has maintained a broadly similar trend since March.

Backlogs of work fell in June, taking the current sequence of depletion to eight months. The rate of decrease was, however, only marginal. Unfinished business levels fell across four of the six monitored service sub-sectors, and at similar rates.

Service providers' assessment of the business outlook improved in June. The degree of positive sentiment was the strongest recorded since last October. Panellists anticipate that economic conditions will improve in the year ahead, leading to stronger demand. There were also mentions that the football World Cup is set to drive activity growth in the coming year.

Average prices paid by Brazilian services companies rose further during June. The overall rate of cost inflation accelerated since May, but was moderate overall. Anecdotal evidence suggested that raw material and labour costs both had increased in price. There were also reports of disadvantageous exchange rates.

Output prices rose for the forty-third successive month in June. That said, increased competition for new work weighed on pricing power and tariffs rose only slightly. Furthermore, the rate of charge inflation eased to the weakest since January 2012, and was slight overall. From all six monitored service sub-sectors, four signalled higher selling prices, the exceptions being Post & Telecommunication and 'Other Services'.

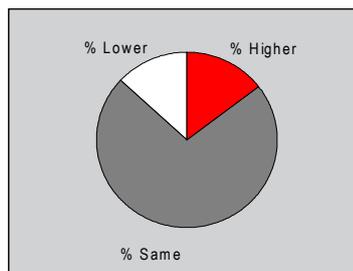
Business Activity Index



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

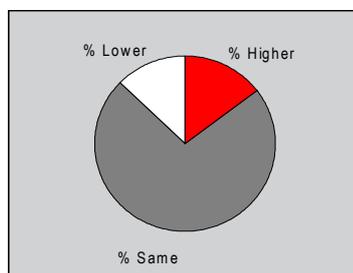
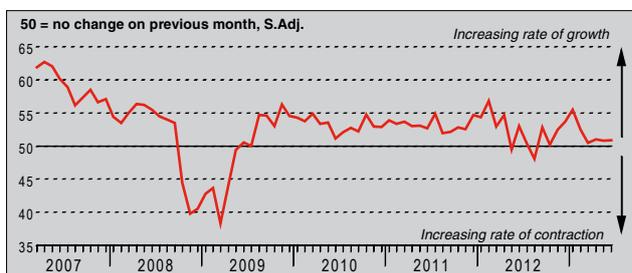
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



June data pointed to another modest expansion of service sector output in Brazil. The seasonally adjusted Business Activity Index posted above the no-change threshold for the tenth successive month, and was unchanged from May. Surveyed companies indicated that output rose in line with new business growth. From all six monitored categories, four registered higher business activity, with the fastest increase noted at Transport & Storage. Conversely, output fell in the Post & Telecommunication and 'Other Services' sectors.

New Business Index

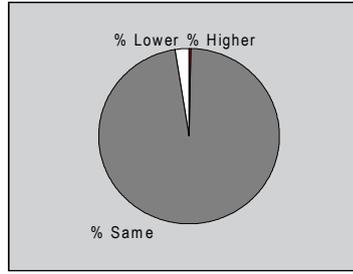
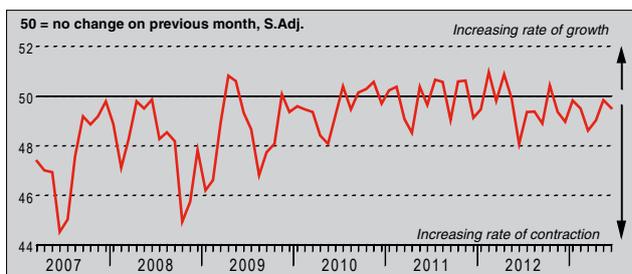
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business placed at services companies in Brazil rose during June, taking the current expansionary sequence to ten months. The overall rate of growth was slight, and little-changed from May. Panel members linked the latest increase to new contract wins. Sector data indicated that incoming new work expanded at Financial Intermediation, Hotels & Restaurants, Renting & Business Activities and Transport & Storage, with the latter leading the rise.

Outstanding Business Index

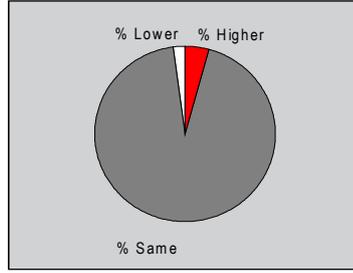
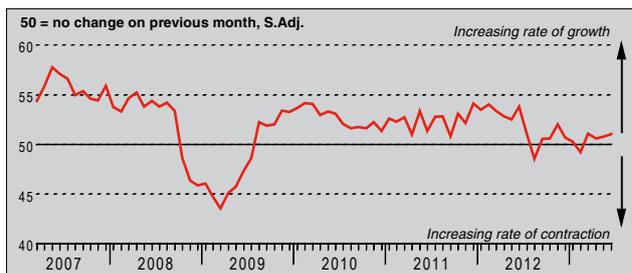
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work in the Brazilian service sector fell further during June. However, with only 3% of respondents signalling lower volumes of work-in-hand and the vast majority (97%) reporting no change from one month previously, the overall rate of depletion was only marginal. Anecdotal evidence suggested that increased workforce numbers had supported the completion of unfinished business.

Employment Index

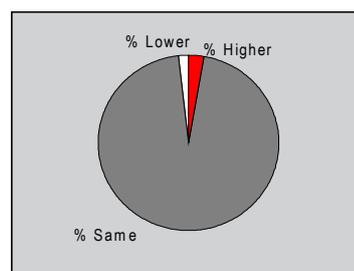
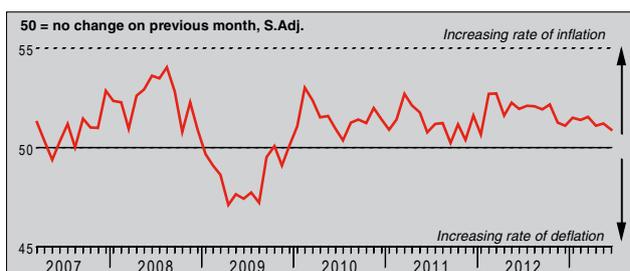
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



June data highlighted a further rise in payroll numbers across the Brazilian service sector. The pace of job creation was slight and has maintained a broadly similar trend since March. Furthermore, the Employment Index adjusted for seasonal influences posted below the long-run series average. Monitored firms linked additional hiring to new order growth. There were a few mentions of business expansion at some units.

Prices Charged Index

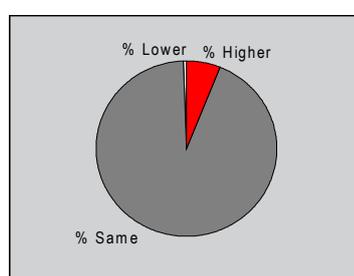
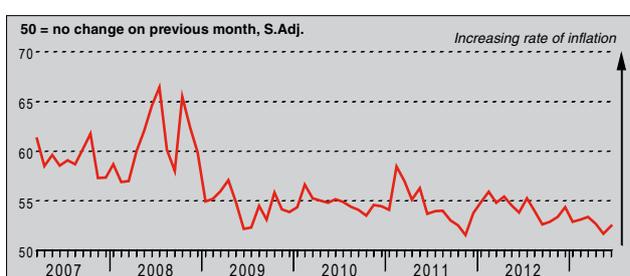
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Reflective of increased input prices, Brazilian services companies raised their tariffs in June. Competitive pressures, however, had prevented firms from fully passing on to clients the full burden of cost inflation. Subsequently, the rate of charge inflation was only slight and eased to the weakest since January 2012. Four of six service sub-sectors recorded higher output prices, with Post & Telecommunication and 'Other Services' the only exceptions.

Input Prices Index

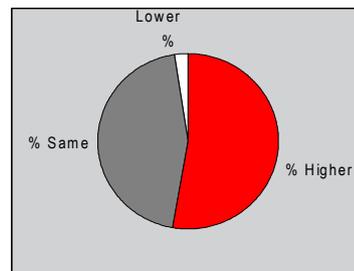
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input prices faced by Brazilian services companies rose during June, as has been observed in each month since the survey started in March 2007. The rate of cost inflation accelerated from May, but the seasonally adjusted Input Prices Index posted well below the long-run series average. Around 6% of panellists reported higher input prices, citing increased raw material and labour costs. There were also reports of unfavourable exchange rates.

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 signalled optimism towards output growth in the coming year. Moreover, the degree of positive sentiment was the strongest recorded since last October. Surveyed companies expect business activity to expand in tandem with forecasts of stronger demand and better economic conditions. Panellists also commented that the football World Cup is projected to lead to higher output 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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