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HSBC Brazil Services PMI™

Service sector output expands marginally, as new business growth eases

Key findings:

- · Marginal growth of business activity
- Incoming new business rises at weakest pace since March
- Degree of positive sentiment at nine-month high

Reflective of weaker gains in incoming new work, a fragile economic condition domestically and national protests, activity in the Brazilian service sector rose only marginally in July. Furthermore, new business growth eased to the weakest since March. Encouragingly, job creation was recorded and the level of positive sentiment towards output expansion in the year ahead was the strongest in nine months.

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 – fell from 51.0 in June to 50.3 in July. The latest reading was indicative of a marginal increase in services output, and the joint-weakest in the current 11-month expansionary sequence. Slower rises in business activity were linked by panellists to weaker gains in new work, an increasingly fragile economy and national protests.

Continuing the trend that started in September 2012, new business received by Brazilian service providers rose in July. That said, the overall rate of expansion was only marginal and the weakest since March. Anecdotal evidence suggested that demand was maintained, but that political problems, tough economic conditions and protests had all weighed on growth.

Sector data pointed to weaker gains in new work across four of the six monitored service sub-sectors, while Post & Telecommunication registered a further contraction. Transport

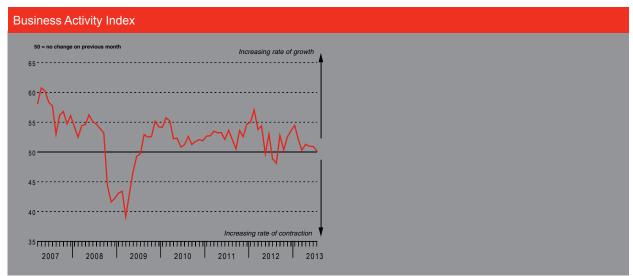
& Storage registered the strongest overall growth.

Faced with spare capacity, service providers continued to work through their backlogs of work in July. Unfinished business levels were depleted slightly, but at the quickest pace since June 2012.

Services companies in Brazil remained upbeat about the prospects for activity growth in the coming 12 months, with the degree of optimism during July the strongest registered in nine months. Positive sentiment was attributed by monitored firms to hopes of an improvement in the Brazilian economy and predictions of higher tourism resulting from the football World Cup.

Subsequently, service providers added to their workforce numbers in July. The overall rate of job creation was, however, slight and little-changed from that registered in June. From the six monitored sub-sectors, five registered job creation, the only exception being Hotels & Restaurants. Employment growth across the Brazilian service sector overall has now been recorded for five months.

Amid evidence of higher input and labour costs, prices charged by Brazilian service providers were raised in July. The overall rate of increase was, however, slight and unchanged from June. Purchase prices rose further, though moderately. Monitored firms indicated that a depreciation of the Brazilian real had resulted in higher prices paid for imported goods. The fastest rise in input costs was noted at Hotels & Restaurants.



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.

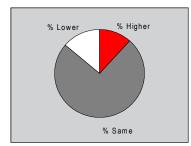




Business Activity Index

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.



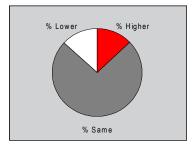


Output in the Brazilian service sector rose during July, as has been the case since September 2012. The rate of expansion as signalled by the seasonally adjusted Business Activity Index was, however, only fractional and joint-weakest in that sequence (on par with March). Weaker rises in output were generally linked to an increasingly fragile domestic economy, subdued demand conditions and national protests. Five out of six service sub-sectors posted growth, the only exception being Post & Telecommunication.

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.

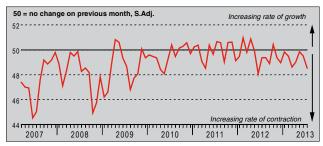


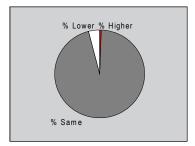


Service providers in Brazil registered further new order growth in July, taking the current expansionary sequence to 11 months. The seasonally adjusted New Business Index posted above the 50.0 no-change threshold, but was consistent with only a marginal rise. Panel members reporting higher levels of incoming new work stated that demand was maintained, but anecdotal evidence generally showed that weaker economic conditions, political problems and the protests had all weighed on market conditions.

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.

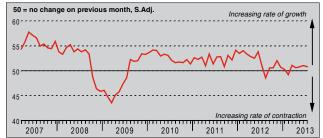


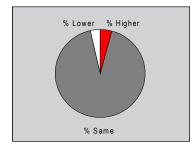


Unfinished business levels in the Brazilian service sector fell during July. Despite being slight, the overall rate of depletion accelerated to the quickest since June 2012. Companies reporting lower volumes of work-in-hand (but not yet completed) generally commented on a lack of pressure on operating capacity. From all six monitored service categories, five registered decreasing backlogs of work, with the fastest decline noted at Post & Telecommunication. In contrast, outstanding business volumes were accumulated in the Hotels & Restaurants sub-sector.

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).

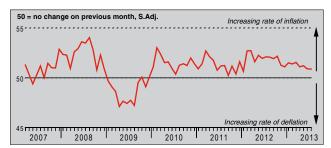


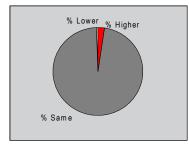


Services companies in Brazil signalled employment growth in July. But, with 4% of panellists reporting higher staffing levels and the vast majority indicating no change from one month previously, the overall pace of job creation was only slight and little-changed from June. Anecdotal evidence suggested that workforce numbers were increased in line with forecasts of stronger demand in the coming months.

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.

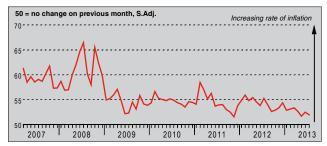


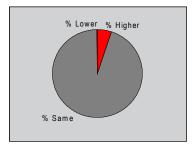


July data highlighted a further rise in prices charged by Brazilian service providers. The rate of charge inflation was, however, only slight and unchanged from that seen in June. Companies indicated that average selling prices were raised in tandem with higher labour and input costs. Four of the six monitored sectors recorded higher output prices, with Renting & Business Activities leading the rise.

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.



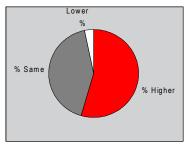


Input prices in the Brazilian service sector increased in July, as has been observed throughout the series history. However, the overall rate of cost inflation was moderate and eased since June. Monitored firms indicated that a range of raw materials had increased in price, in part due to the depreciation of the Brazilian real (in particular against the US dollar). Five of the six surveyed sectors registered higher input costs, whereas no change was signalled by Transport & Storage companies.

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?





Brazilian service providers remain upbeat about the prospects for business activity at their units in the coming year. Over half of the survey panel expect output growth, compared with only 3% that anticipate a decline. Consequently, the Business Expectations Index was at a nine-month high and indicated a robust degree of optimism. The positive business outlook was linked to hopes of an improvement in the domestic economy and increased tourism resulting from the football World Cup.

Notes on the Data and Method of Presentation

The Brazil Services PMI™ covers hotels & restaurants, transport & storage, financial intermediation, renting & business activities, post & telecommunications and other services.

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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