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HSBC Brazil Services PMI™

Service sector output contracts, as new business stagnates

Key findings:

- Business activity decreases at marginal pace
- New business broadly unchanged since July
- Employment growth eases

Business activity across the Brazilian service sector fell during August for the first time in a year, with firms indicating that incoming new work stagnated over the month. Meanwhile, staffing levels rose, but at the slowest pace in the current sixmonth sequence of job creation.

August's 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 – dipped below the 50.0 no-change level for the first time in 12 months. Down from 50.3 in July to 49.7, the latest index reading was consistent with a marginal contraction of output levels across the country's service sector. Among the six monitored sub-sectors, Post & Telecommunication registered the sharpest decline. Anecdotal evidence highlighted weak economic conditions and subdued underlying demand.

Having increased in each of the previous 11 months, new business placed at service providers in Brazil were broadly unchanged during August. Surveyed firms reporting higher levels of incoming new work cited new contract wins. Conversely, panellists indicating lower volumes of new business commented on weaker demand and an increasingly fragile economy.

Employment in the Brazilian service sector rose during August, amid evidence of increased business requirements. That said, the overall rate of job creation was only fractional and the slowest in the current six-month sequence of job creation. Five

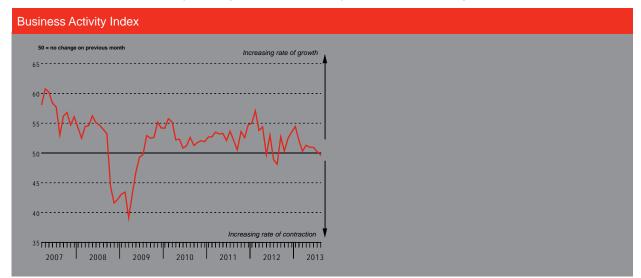
of the six monitored categories recorded employment growth, the exception being Hotels & Restaurants.

Nevertheless, backlogs of work were accumulated in August, ending a period of depletion that had lasted for nine months. However, with the vast majority of panellists reporting no change in unfinished business levels from one month previously, the pace of increase was only slight.

As has been observed in each month since the survey started in March 2007, prices paid by Brazilian services companies rose during August. The rate of cost inflation was solid and the quickest in the year-to-date. All six sub-sectors signalled higher purchase prices, with the fastest rise noted at Hotels & Restaurants. Panellists stated that with the depreciation of the Brazilian real against the US dollar, imported raw material prices were greater. There were also reports of increased labour costs at some companies.

Subsequently, service providers raised their selling prices further in August. The overall rate of charge inflation was moderate, but the strongest since March. Sector data highlighted higher output prices in five of the six monitored sectors, led by Hotels & Restaurants.

Services firms remained optimistic towards output growth in the year ahead, with firms linking positive sentiment to forecasts of stronger demand, the football World Cup and hopes of an improvement in the economy.



The survey uses a methodology identical to the HSBC Brazil Manufacturing PMI^{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 PMI^{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.

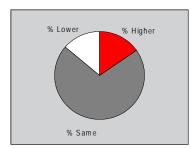




Business Activity Index

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.



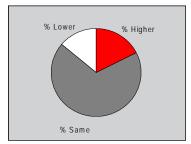


Business activity in the Brazilian service sector fell for the first time in a year during August, amid reports of subdued demand conditions and an increasingly fragile economy. The rate of contraction as indicated by the seasonally adjusted Business Activity Index was, however, only fractional. Sector data highlighted the fastest decline in the Post & Telecommunication sector, followed by Hotels & Restaurants.

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.



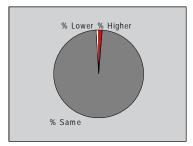


Companies operating in the Brazilian service sector indicated that new business levels were broadly unchanged in August. This was signalled by the seasonally adjusted New Business Index posting only marginally above the 50.0 no-change threshold. Panellists reporting higher volumes of incoming new work commented on new contract wins, whereas firms reporting a decline cited weaker demand and tough economic 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.



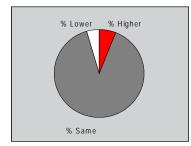


Backlogs of work in the Brazilian service sector rose in August, ending a nine-month sequence of depletion. However, with the vast majority of respondents (almost 98%) reporting no change in unfinished business levels since July, the overall rate of accumulation was only slight. Outstanding business rose at Hotels & Restaurants firms, while marginal declines were noted in the Post & Telecommunication, Financial Intermediation and Renting & Business Activities sub-sectors. Backlogs of work in the Transport & Storage and 'Other Services' sectors were broadly unchanged.

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).



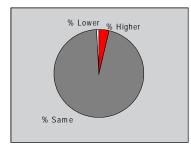


Staffing levels in the Brazilian service sector rose during August, marking a six-month sequence of job creation. That said, the rate of employment growth was only fractional and the slowest in that sequence. Furthermore, the seasonally adjusted Employment Index posted below the long-run series average. From all six monitored service categories, five registered higher payroll numbers, the exception being Hotels & Restaurants. Those panellists reporting job growth largely commented on increased business requirements.

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.

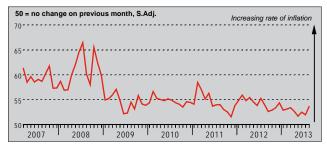


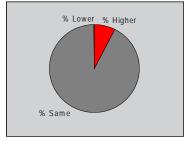


Average prices charged by Brazilian services companies rose during August, marking a 45-month inflationary sequence. Despite being moderate, the rate of charge inflation accelerated to the fastest since March. Anecdotal evidence suggested that output prices were raised in attempts to pass on additional cost burdens. Five of the six monitored sectors registered higher output prices, led by Hotels & Restaurants. A slight reduction was signalled by Post & Telecommunication firms.

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.



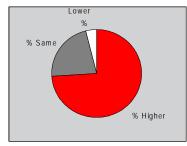


August data highlighted a further increase in average prices paid by Brazilian service providers. With all six monitored categories signalling higher input prices, the overall rate of cost inflation was solid and the strongest in the year-to-date. Monitored firms reporting higher purchase costs stated that raw materials in general had increased in price, in part led by the depreciation of the Brazilian real against the US dollar. A few firms also commented on higher labour costs.

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 firms in August. Almost 74% of panellists expect output to increase in the coming year, while only 4% anticipate a reduction. Consequently, the degree of positive sentiment was strong, with the Business Expectations Index rising to its highest mark in ten months. Positivity was linked by panellists to hopes of an improvement in the domestic economy, the football World Cup and forecasts of stronger demand.

Notes on the Data and Method of Presentation

The Brazil Services $PMl^{r_{M}}$ 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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