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HSBC Brazil Services PMI™

Service sector output returns to growth in September

Key findings:

- New orders and business activity expand slightly
- Employment growth accelerates
- Inflationary pressures ease

Following a contraction recorded in August, service sector output across Brazil rose in September, amid evidence of new business growth. Subsequently, companies hired additional staff. That said, both new orders and output expanded at weak rates. On the price front, the rates of input and output price inflation both eased.

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 – edged back above the neutral 50.0 threshold in September. Up from 49.7 in August to 50.7, the latest index reading was indicative of a slight improvement in business activity across Brazil's service sector, with firms commenting on new contract wins. Nevertheless, the Business Activity Index average for the third quarter of the year was the lowest since Q3 2012.

Incoming new work received by Brazilian services companies expanded in September, marking a 13-month sequence of growth. Although the fastest since June, the rate of growth was only slight. Furthermore, the index measuring new orders posted below the long-run series average. Among those firms that signalled higher levels of new business, strengthening demand conditions was mentioned.

Sector data highlighted output and new business growth across five of the six monitored categories, the exception in both cases being Post & Telecommunication. The best performing

sectors in September were Financial Intermediaries and 'Other Services'.

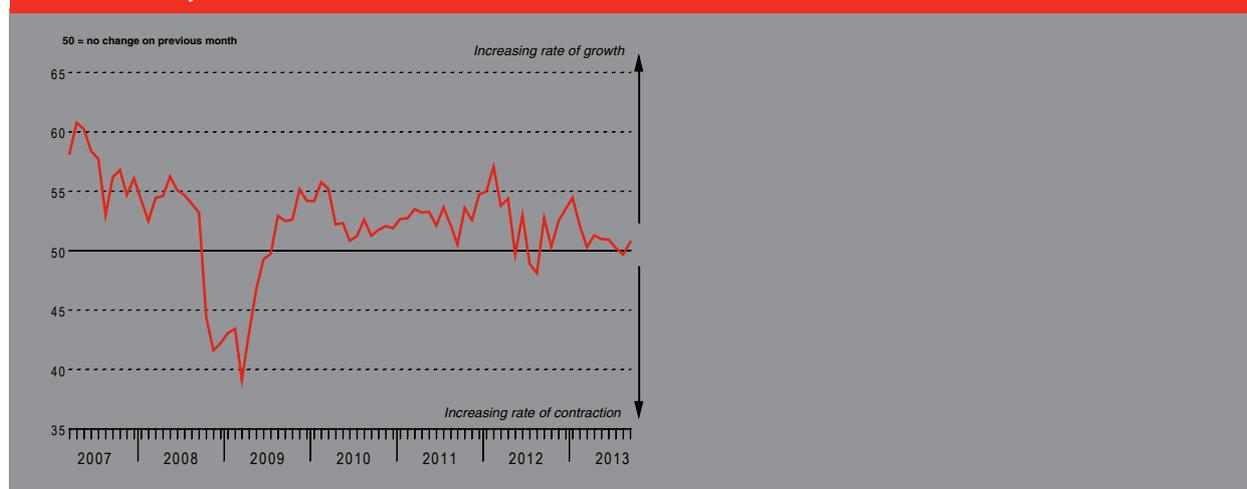
Services employment rose in September, as has been the case in each month since March. Anecdotal evidence indicated that additional hiring reflected new business growth. The rate of job creation accelerated to the quickest in three months, but was only modest nevertheless.

Backlogs of work fell in September. The overall rate of depletion was, however, only marginal. Post & Telecommunication, Renting & Business Activities, Transport & Storage and 'Other Services' companies all signalled lower unfinished business levels, whereas increases were recorded in the Hotels & Restaurants and Financial Intermediation sectors.

Prices paid for inputs by Brazilian services companies increased in September, with all six sectors covered by the survey posting higher costs. The overall rate of inflation remained solid, but eased since August. Monitored companies commented on higher raw material and labour costs. Concurrently, output prices increased further. The rate of charge inflation, however, eased slightly since August.

Further optimism was signalled by services firms in September, albeit to a lesser extent than seen in the previous month. Although service providers expect forecasts of stronger demand to result in output growth, there were concerns about the current economic situation in Brazil.

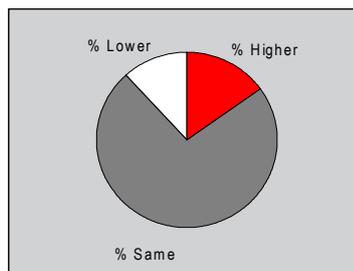
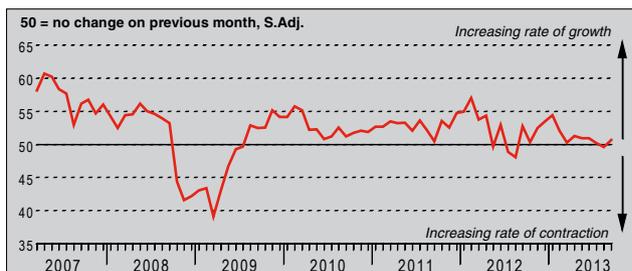
Business Activity Index



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

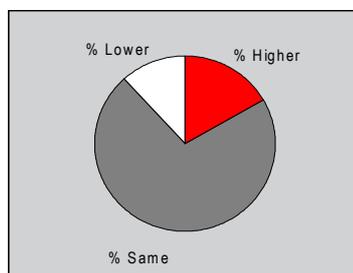
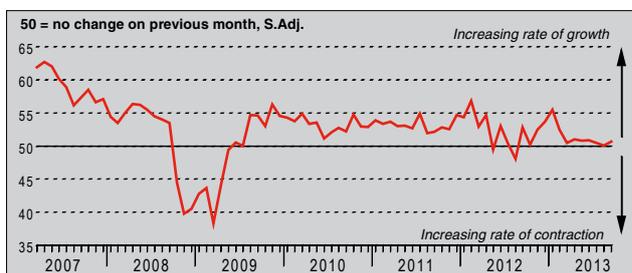
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Output in the Brazilian service sector rose in September. This was indicated by the seasonally adjusted Business Activity Index posting above the neutral 50.0 threshold for the first time since July. However, the latest reading was consistent with only a slight pace of expansion and one that was weaker than the long-run series average. Five of the six monitored categories recorded higher output, the exception being Post & Telecommunication. Anecdotal evidence suggested that business activity growth reflected new contract wins.

New Business Index

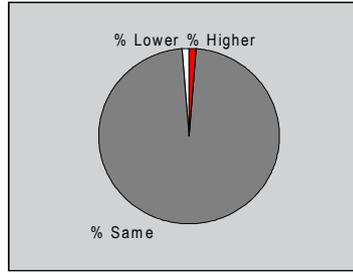
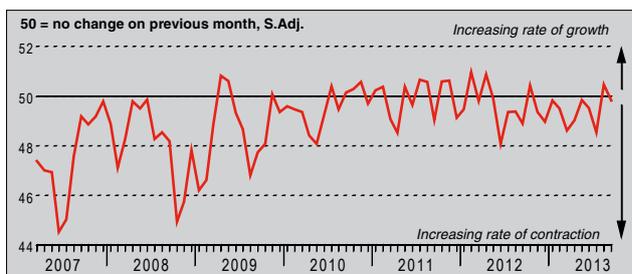
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



September data pointed to a thirteenth consecutive monthly rise in new orders received by Brazilian service providers. Despite being the strongest in three months, the pace of expansion was only slight. Furthermore, the New Business Index adjusted for seasonal influences was below the long-run series average (52.8). As with the trend seen for output, new business growth was recorded across five of the six surveyed sub-sectors, while Post & Telecommunication firms signalled a decline. Panellists largely commented on strengthening demand.

Outstanding Business Index

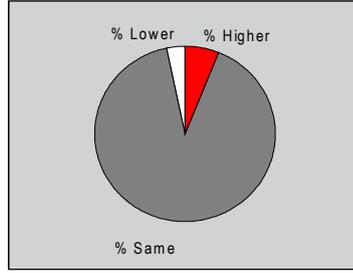
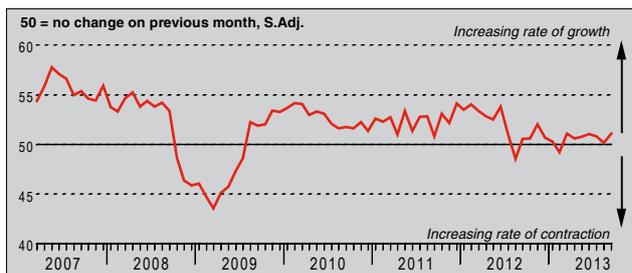
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Amid reports of employment growth, backlogs of work in the Brazilian service sector fell in September. That said, the seasonally adjusted Outstanding Business Index indicated a marginal decline overall. Unfinished business levels were depleted in the Post & Telecommunication, Renting & Business Activities, Transport & Storage and 'Other Services' sectors, while Hotels & Restaurants and Financial Intermediation firms noted marginal increases.

Employment Index

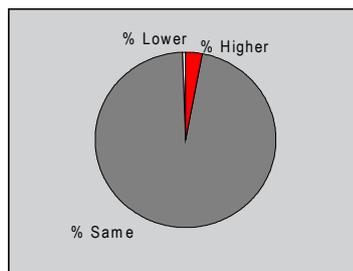
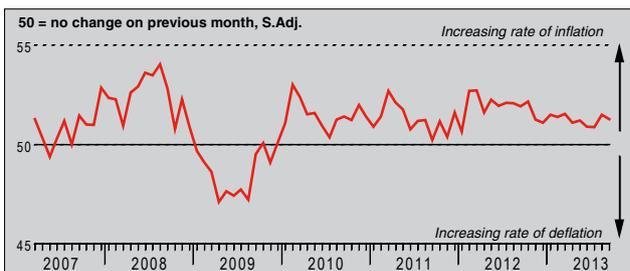
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Brazilian services companies reported increased payroll numbers in September, as has been the case since March. Although the fastest in three months, the rate of expansion was only slight. Job creation was registered in the Renting & Business Activities, Transport & Storage and 'Other Services' sectors, with the latter posting the strongest growth. Survey participants signalling higher workforce numbers mentioned stronger demand as the main factor behind additional hiring.

Prices Charged Index

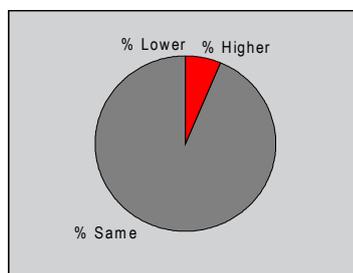
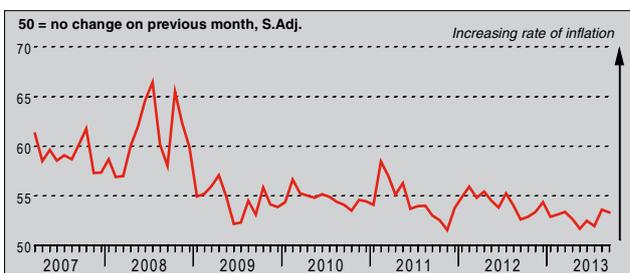
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Brazilian service providers rose for the forty-sixth month running in September, with the rate of charge inflation easing slightly since August. Panel members reported passing on higher input costs to clients. Sector data highlighted the strongest rates of output price inflation in the Hotels & Restaurants and Renting & Business Activities sectors, whereas Post & Telecommunication firms indicated that charges were reduced.

Input Prices Index

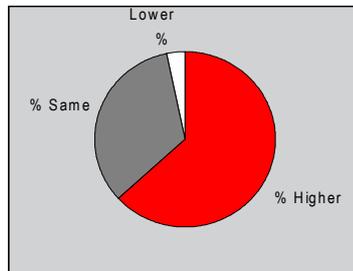
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



As has been observed throughout the survey history, Brazilian services firms reported higher average prices paid in September. Although solid, the rate of cost inflation eased slightly since August and was weaker than the series average. Input costs rose across all six monitored categories, and inflation was most pronounced in the Post & Telecommunication and Hotels & Restaurants sectors. Evidence from panellists highlighted higher raw material and 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?



The Business Expectations Index fell slightly from August, but remained above the 50.0 no-change mark indicating optimism. Respondents mentioned that forecasts of stronger demand and increased numbers of enquiries are expected to result in output growth in the coming year. However, concerns about the economic situation across the country weighed on the degree of positive sentiment in September.

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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