

HSBC Brazil Services PMI™

Business activity expands at strongest pace in eight months during October

Key findings:

- Service sector output grows at faster, albeit moderate rate
- Solid rise in incoming new business
- Rate of job creation accelerates

Brazil's services economy gained momentum in October, with output, new orders and employment all rising at faster rates. Driven by a solid increase in new business, output expanded at the strongest pace in eight months. Concurrently, companies hired additional workers and the index measuring employment climbed to its highest mark since June 2012.

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 – remained above the crucial 50.0 threshold in October. At 52.1 in October (September: 50.7), the latest index reading was the highest in eight months and indicated a moderate improvement in business activity across Brazil's service sector. Among the six covered sub-sectors, output growth was strongest at 'Other Services' and Hotels & Restaurants.

Incoming new business expanded at a solid and accelerated rate in October, with panellists commenting on improved client confidence and stronger demand. Five of the six monitored categories recorded higher levels of new business, the exception being Post & Telecommunication. Growth of new orders was strongest at Hotel & Restaurants, followed closely by 'Other Services' and Financial Intermediation.

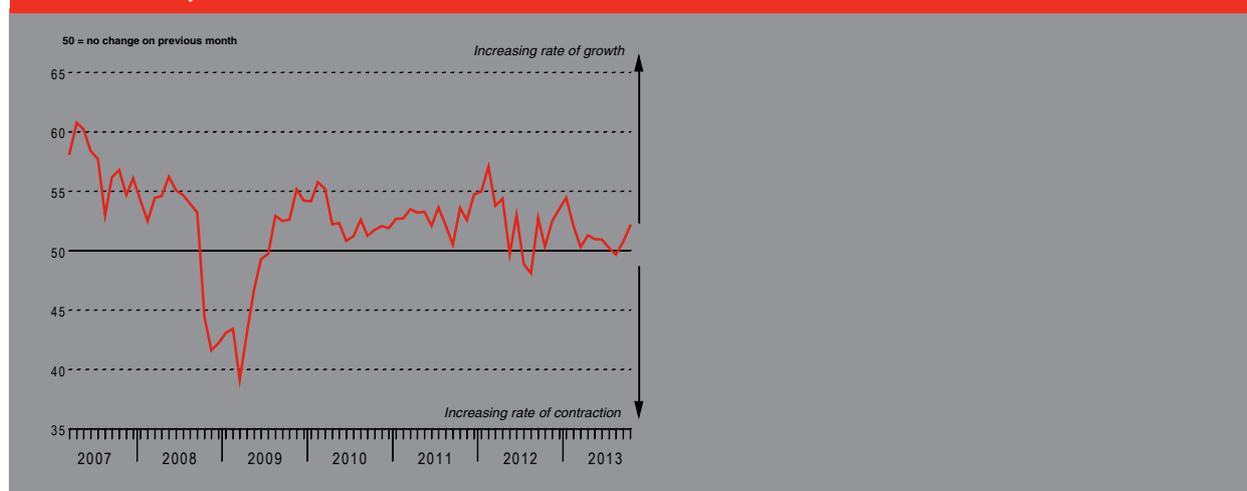
Driven by a solid rise in new work, Brazilian service providers increased their workforce numbers in October. Although modest, the overall pace of job creation accelerated to the quickest in 16

months. Payroll numbers rose in the Renting & Business Activities, Transport & Storage and 'Other Services' categories, while job shedding was recorded in Hotels & Restaurants and Financial Intermediation. Employment at Post & Telecommunication firms were broadly unchanged from the levels recorded in September. Meanwhile, backlogs of work fell for the second month running in October. The rate of depletion was, however, marginal and unchanged from that seen one month previously.

Inflationary pressures in the Brazilian service sector cooled in October, with both input and output prices rising at slower rates than those observed last month. Evidence from panellists highlighted higher raw material and labour costs as the main reasons for the latest increase in average prices paid. The sharpest rise in costs was noted at Hotels & Restaurants companies. Additional cost burdens were partly passed on to clients, but the overall rate of charge inflation eased to the slowest in 21 months and remained weaker than the rate of cost inflation. As with the trend seen for prices paid, the quickest rise in selling prices was recorded at Hotels & Restaurants.

October data indicated that Brazilian service providers remained optimistic towards activity growth in the upcoming 12 months. The overall level of confidence remained robust, with the index gauging business expectations climbing to its highest reading in one-and-a-half years. Panellists expect output to expand in the year ahead in line with forecasts of stronger demand and hopes of an improvement in Brazil's economy.

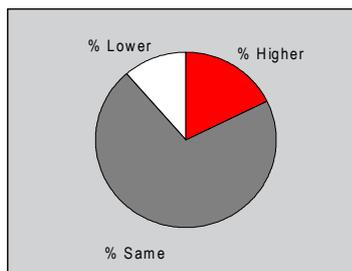
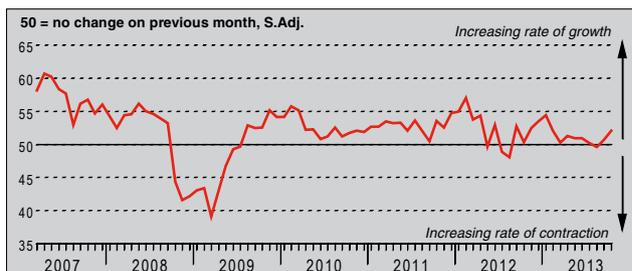
Business Activity Index



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

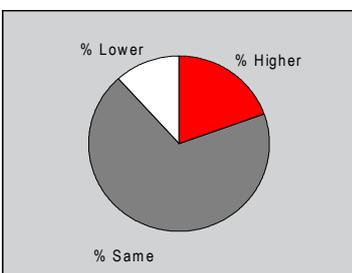
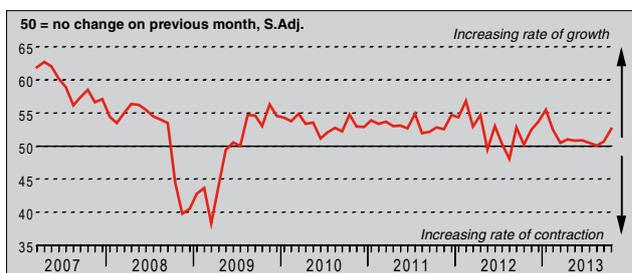
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service sector output across Brazil rose for the second consecutive month in October. Adjusted for seasonal influences, the Business Activity Index climbed to its highest reading since February and was consistent with a moderate pace of growth. Evidence from panellists highlighted stronger flows of incoming new orders. Five of the six surveyed sub-categories recorded higher levels of business activity in the latest month, led by 'Other Services' and Hotels & Restaurants. Output contracted at Post & Telecommunication firms.

New Business Index

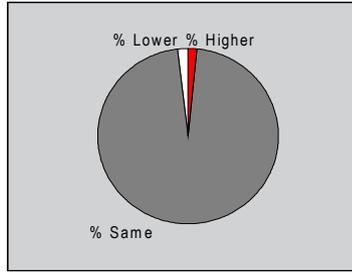
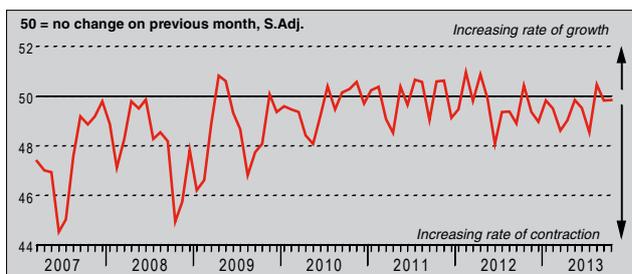
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business placed at services companies in Brazil rose at a solid and accelerated rate in October. Furthermore, the seasonally adjusted New Business Index posted broadly in line with the series average. Surveyed firms reporting higher levels of incoming new work commented on stronger demand and improved client confidence. Five of the six monitored sub-sectors registered new order growth, the exception being Post & Telecommunication. The strongest rate of expansion was noted at Hotels & Restaurants, followed closely by 'Other Services' and Financial Intermediation.

Outstanding Business Index

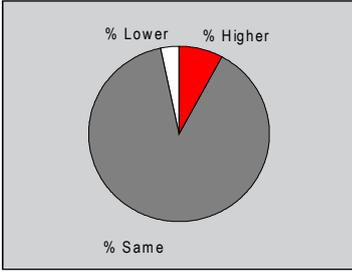
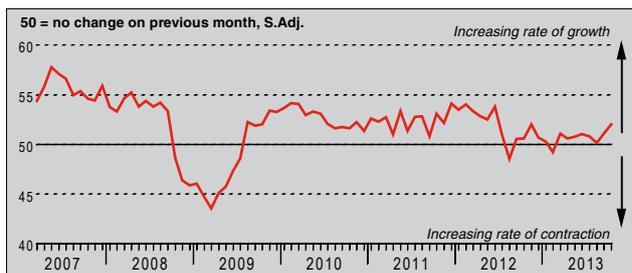
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Despite the recent acceleration in new order growth, unfinished business across the Brazilian service sector fell for a second successive month in October. However, the overall rate of depletion remained fractional, as the vast majority of respondents (almost 97%) indicated no change in their backlogs of work. Outstanding business volumes fell at Post & Telecommunication, Transport & Storage and 'Other Services' firms. Companies operating in the Financial Intermediation, Hotels & Restaurants and Renting & Business Activities sectors indicated that work-in-hand was broadly unchanged from levels recorded in September.

Employment Index

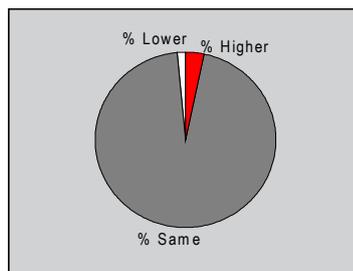
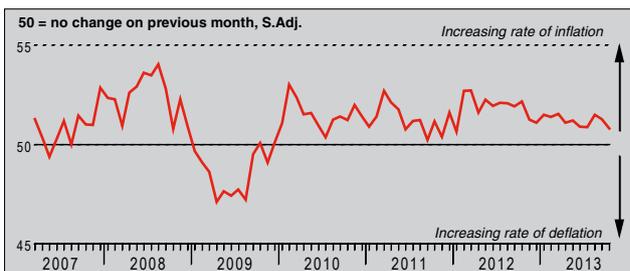
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment across Brazil increased for the eighth month running in October. Despite being moderate, the overall rate of job creation accelerated to the quickest since June 2012. Companies stated that additional hiring reflected stronger new business inflows. Jobs growth across the Renting & Business Activities, Transport & Storage and 'Other Services' categories offset a decline in the Hotels & Restaurants sector. Post & Telecommunication and Financial Intermediation companies indicated broadly no change in their workforce numbers during the latest month.

Prices Charged Index

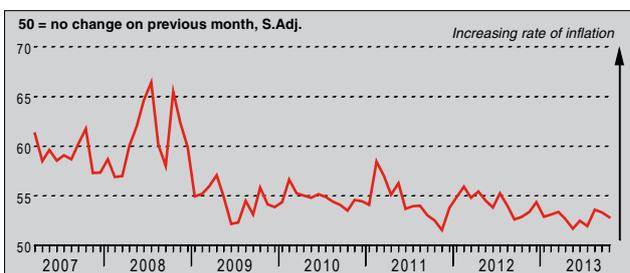
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average prices charged by companies operating in the Brazilian service sector rose in October, stretching the current sequence of charge inflation to 47 months. That said, the Prices Charged Index adjusted for seasonal influences dropped to its lowest mark in 21 months and was indicative of a marginal increase overall. Around 3% of panellists reported higher output prices, citing additional cost burdens. Among the six monitored sub-sectors, the strongest rise was noted at Hotels & Restaurants.

Input Prices Index

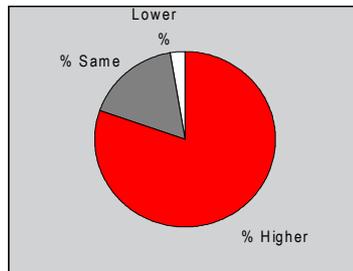
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



October data highlighted a further increase in prices paid by services companies in Brazil. Although solid, the overall rate of cost inflation eased to the weakest in three months. Furthermore, the seasonally adjusted Input Prices Index posted below its long-run average of 55.9. Anecdotal evidence indicated that a range of raw materials had increased in price. There were also some mentions of higher salaries paid in the latest month. Input costs increased across all six sub-sectors covered by the survey, with the strongest rise noted at Hotels & Restaurants firms.

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 remained upbeat towards output growth in the coming 12 months. Moreover, the degree of positive sentiment signalled in October was the strongest recorded in one-and-a-half years. Around 80% of respondents predict higher activity at their units in the year ahead, compared with only 3% that foresee a reduction. Panellists expect output to expand in tandem with forecasts of stronger demand and hopes of an improvement in the wider economy.

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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