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The HSBC India Services PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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## HSBC India Services PMI

Indian service sector output grew at fastest pace for nearly a year in August.

### Key findings:

- Business activity expanded at accelerated pace.
- New business continued to grow strongly.
- Employment rose at slightly faster rate.

Business conditions across India's service economy remained favourable in August. Output and new orders continued to grow strongly, which led to a slightly faster expansion of employment. Despite strong competitive pressures, service providers retained a degree of pricing power, enabling them to pass on part of their increased cost burdens to customers. Meanwhile, optimism regarding activity over the next year rose to its highest level since June 2008.

The headline seasonally adjusted Business Activity Index registered 54.9 in August, up from 54.7 in the previous month. The latest reading pointed to a marked rise in Indian service sector output. Activity in the sector has now increased for four successive survey periods, in line with the trend in new work.

Incoming new business to India's service firms grew strongly during August, and at a similar pace to the previous two months. The primary factor underlying new order growth was an improvement in economic conditions. Respondents also noted successful advertising campaigns and strong reputations for quality as contributors to the increase.

Greater activity requirements placed pressure on capacities during the latest survey period. Increased levels of outstanding business at Indian service providers accumulated for the fourth month in a row, and at a slightly faster pace. However, anecdotal evidence suggested that part of the moderate rise in

backlogs resulted from client delays.

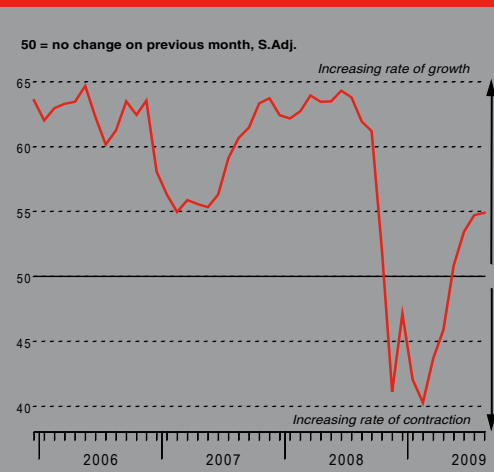
Capacity constraints led Indian service companies to take on more personnel in August. The sector's labour force has grown during every month since April, although only weakly. That said, the latest increase was the most marked for ten months.

Indian service providers held on to a degree of pricing power in August. Charges were raised for the second successive month, primarily in order to defend profit margins from rising costs or to take advantage of firmer market demand. However, inflation eased slightly since July to only a marginal pace that was well below the long run trend for the series.

Input price inflation also slowed during August. Data showed that input costs increased at a modest rate that was the mildest for three months. Panellists attributed higher costs to greater fuel, raw material and wage expenses.

Service companies across India were highly optimistic in August regarding activity levels in one year's time. Confidence was at its most elevated for fourteen months, largely as a result of better business conditions. Good reputations and attention to customer service were other key reasons for positive sentiment. Current contract negotiations, marketing efforts, expectations of new business from the government, company expansions and new business strategies were also mentioned.

### Business Activity Index



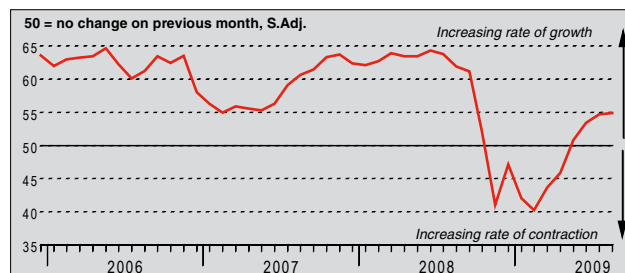
The survey uses a methodology identical to the HSBC India Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Indian services economy.

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously.

### 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.

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	15.1	59.7	25.2	-10.1
	Apr	18.0	60.6	21.5	-3.5
	May	27.6	53.1	19.3	8.3
	Jun	26.3	57.1	16.6	9.7
	Jul	24.4	59.7	15.9	8.4
	Aug	25.4	59.4	15.1	10.3

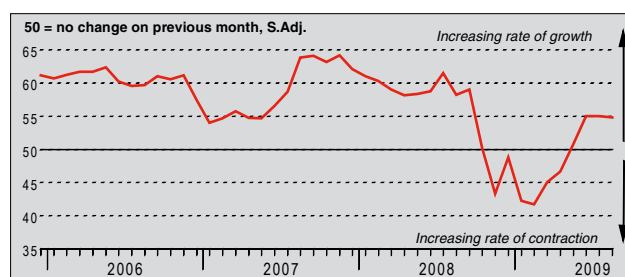


Business activity at Indian service providers continued to expand during August. Furthermore, growth accelerated slightly to a marked pace that was the fastest for almost a year. Over one-quarter of respondents raised output over the month, predominantly to accommodate higher sales volumes. In comparison, only 15% of firms cut their activity levels since July – the lowest proportion in eleven months. However, the rate of increase remained subdued by historical standards. Reports suggested that strong competition tempered further output growth.

### 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.

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	18.7	56.2	25.2	-6.5
	Apr	21.8	56.1	22.0	-0.2
	May	19.4	67.9	12.6	6.8
	Jun	30.7	55.2	14.1	16.7
	Jul	22.1	64.7	13.1	9.0
	Aug	26.7	56.8	16.5	10.2

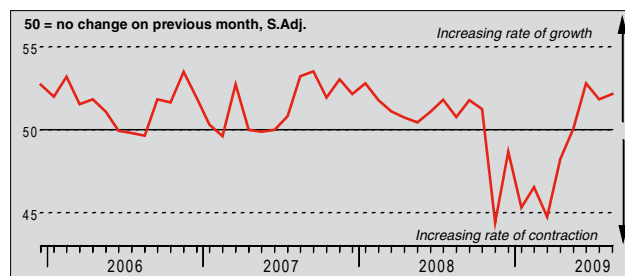


Volumes of new work taken by Indian service firms increased for the fourth successive month in August. The marked pace of growth was little-changed from rates recorded in June and July, as signalled by a sideways movement in the seasonally adjusted New Business Index. Improving economic conditions were a major influence on demand levels, according to panel members. Reports also indicated that successful promotional activities and strong reputations for quality contributed to new order gains. Nevertheless, the month-on-month rise in new work remained slower than the series long-run trend.

### 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.

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	3.2	85.6	11.1	-7.9
	Apr	9.5	79.0	11.5	-2.0
	May	5.3	88.8	5.9	-0.6
	Jun	12.1	81.0	6.9	5.3
	Jul	8.9	82.9	8.2	0.7
	Aug	13.6	76.6	9.8	3.7

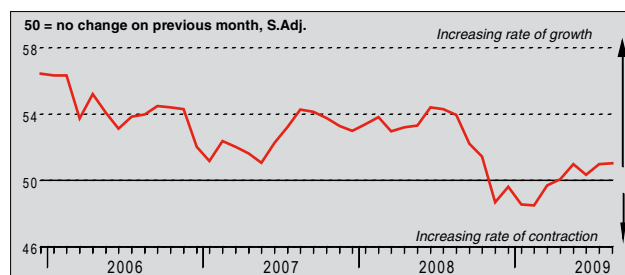


Indian service firms noted another build up of unfinished business during August. Greater workloads placed additional pressure on capacity, causing a moderate rate of accumulation that was both the fastest for two months and above the long run average for the series. Increasing volumes of outstanding work have now amassed for four straight periods. Approximately 14% of survey participants saw work-in-hand rise, compared with less than one-tenth that depleted backlogs. However, anecdotal evidence indicated that part of this increase could be attributed to delays caused by clients.

### 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).

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	3.2	91.1	5.7	-2.5
	Apr	5.6	87.4	7.0	-1.4
	May	3.7	93.5	2.8	0.8
	Jun	4.1	90.9	5.0	-0.9
	Jul	4.3	93.2	2.5	1.8
	Aug	7.0	90.0	2.9	4.1

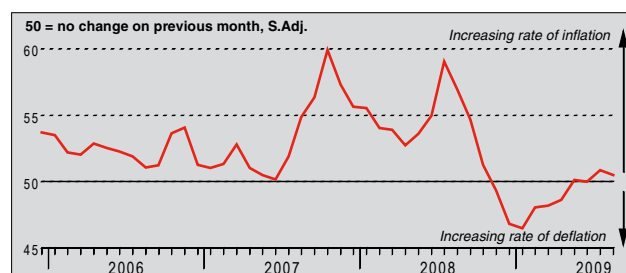


Staffing numbers across the Indian service economy continued to rise during August, extending the current period of growth to five months. Although the slight rate of increase was only marginally faster than in July, it was the most marked since October last year. Survey members stated that workforces were expanded in line with higher activity requirements. However, the rate of job creation remained weaker than the series long run average, with the vast majority (90%) of respondents maintaining their personnel levels over the 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.

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	2.7	90.2	7.0	-4.3
	Apr	1.1	92.1	6.7	-5.6
	May	4.3	92.8	2.9	1.4
	Jun	2.7	92.5	4.8	-2.2
	Jul	2.8	95.8	1.3	1.5
	Aug	3.5	94.8	1.7	1.8

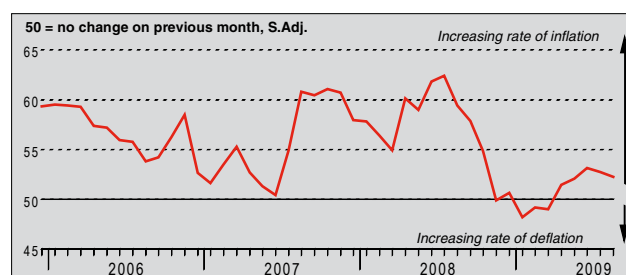


Output price inflation in India's service sector eased slightly during August to a marginal pace. Where companies raised their charges, this was predominantly to pass on greater cost burdens to customers or to take advantage of stronger market demand. Firms that cut their tariffs did so mainly to remain competitive. Some panel members commented on promotional discounting to attract more custom. Data showed that the latest rise in charges was far weaker than inflation recorded over the same period in previous years of the survey's history.

## 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.

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	5.2	86.4	8.5	-3.3
	Apr	6.0	89.7	4.3	1.8
	May	5.2	93.5	1.4	3.8
	Jun	8.7	89.7	1.6	7.2
	Jul	6.7	92.4	0.9	5.8
	Aug	9.1	87.2	3.7	5.4

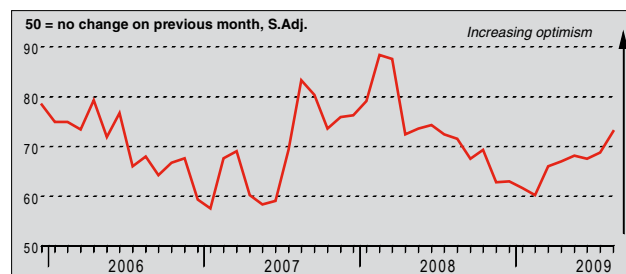


Indian service providers noted another moderate rise in their cost burdens during the latest survey period. Input prices in the sector have increased for five months running, although the rate of inflation eased slightly in July and August. Growth of input prices since July was the weakest for three months and below the series historic trend. Companies commonly linked input cost inflation to higher fuel, raw material and wage costs. Firms in the Hotels & Restaurant industry made particular reference to higher food and cooking oil expenses.

## 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?

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	Mar	38.1	55.9	6.0	32.1
	Apr	37.9	58.3	3.8	34.0
	May	39.8	56.8	3.4	36.5
	Jun	38.0	59.1	2.9	35.0
	Jul	42.9	52.0	5.2	37.7
	Aug	47.4	51.4	1.2	46.2



Positive sentiment was elevated amongst Indian service companies in August. The Business Expectations Index climbed sharply to its highest level for fourteen months, with over 47% of the survey panel expressing confidence about activity over the coming year. Better business conditions was a frequently cited reason for optimism. Many firms were also confident that their reputations and attention to customer care would secure custom. Other reasons for improved sentiment included current contract negotiations, marketing efforts, expectations of new business from the government, company expansions and new business strategies.

## Notes on the Data and Method of Presentation

The India 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.

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