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For further information contact:

Robert Prior-Wandesforde

Senior Asian Economist
HSBC Bank plc

HSBC Holdings, plc
8 Canada Square
London E14 5HQ.
United Kingdom

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hsbc.com



Markit Economics
Henley on Thames
Oxon RG9 1EL, UK
Tel: +44 1491 461000
Fax: +44 1491 461001

e-mail: economics@markit.com

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HSBC India Services PMI

Indian service sector output growth remained solid in September.

Key findings:

- Growth of business activity, new work and employment little-changed since August.
- Input price inflation accelerated to eleven-month high.
- Confidence strongest for year-and-a-half.

Rates of output, new business and employment growth in India's service economy were little-changed during September from those recorded in August. Improved business conditions and government investments fuelled optimism amongst firms, and confidence about future activity rose to the highest level since March 2008. Meanwhile, input cost inflation accelerated to the fastest for nearly a year, while charge inflation eased to near-stagnation.

Down slightly from 54.9 in August to 54.4 in September, the headline seasonally adjusted Business Activity Index pointed to another solid increase in Indian service sector output. Reports attributed the latest expansion to new business growth.

Incoming new work rose at a robust pace in September, albeit marginally slower than in the previous survey period. Panellists have noted greater demand for their services for five consecutive months. September's growth was linked to improved economic conditions, good company reputations and successful advertising campaigns.

Higher workloads resulted in another build-up of unfinished business at Indian service providers during the latest survey period. Backlogs of work rose for the fifth straight month and at a moderate pace. However, the rate of accumulation eased since August.

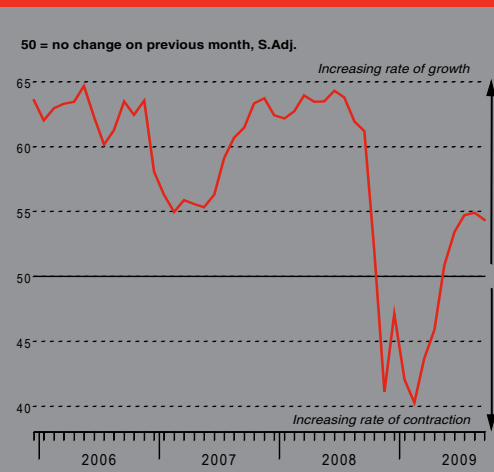
Capacity pressures were also suggested by the trend in employment across India's service sector. Companies continued to hire more workers in order to meet higher workloads, extending the current period of expansion to six months. That said, the rate of growth was only slight and marginally weaker than in the previous month.

Service firms in India were highly optimistic in September with regard to their activity levels over the next year. Moreover, positive sentiment was the highest for eighteen months. Companies cited improved market conditions, company expansions and advertising initiatives as prominent factors supporting confidence. Several firms also commented on government investment in India's infrastructure.

Input price inflation accelerated in September, driven by higher fuel, raw material and wage costs. Greater food prices were particularly noted by firms in the Hotels & Restaurants sector, and diesel costs by companies in the Transport & Storage industry. The latest round of inflation was solid, but remained weaker than its long-run trend.

Competition prevented many Indian service providers from raising their tariffs in September. Charges were broadly unchanged on the month as a result. Where output prices were increased, respondents linked this to stronger demand and the need to protect profit margins from rising costs.

Business Activity Index



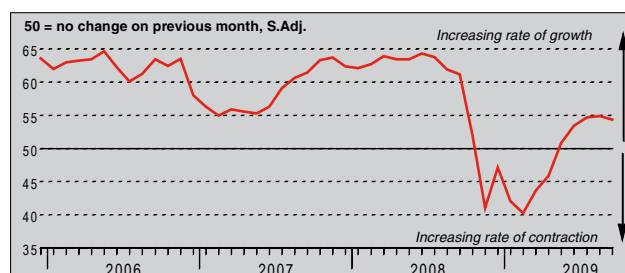
The survey uses a methodology identical to the HSBC India Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of 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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 25.7 | 64.1 | 10.2 | 15.4 |

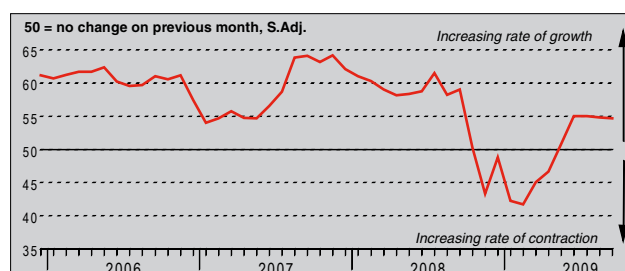


Indian service providers reported another robust rise in their activity levels during September. The rate of growth was little-changed from those recorded in July and August, as highlighted by the seasonally adjusted Business Activity Index trending broadly sideways. More than one-quarter of survey participants raised output on the month, predominantly linking this to greater workloads. Meanwhile, only around one-tenth cut activity – the lowest proportion since April 2008.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 26.5 | 60.6 | 12.9 | 13.6 |

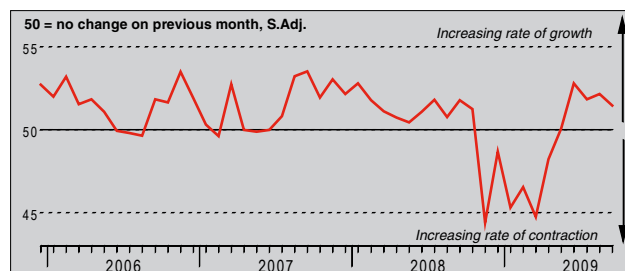


New work placed with Indian service companies expanded in September. Incoming new business rose for the fifth successive month and at a solid pace. Approximately 27% of panellists saw demand for their services increase since August, against under 13% that noted a fall. Better economic conditions were a prominent reason for growth, although strong reputations for good service and successful marketing activities were also reported by firms.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 8.4 | 88.5 | 3.1 | 5.4 |

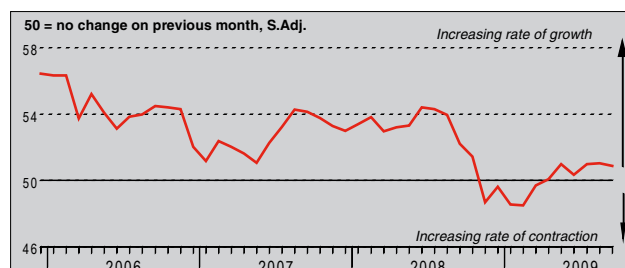


Unfinished business accumulated at Brazilian service providers for the fifth month in a row during September. Although only modest and slower than over the previous three survey periods, the rate of expansion remained more marked than the series long term trend. Panel members mentioned a greater volume of new work and client delays as the primary factors underlying the latest increase in backlogs.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 5.4 | 93.5 | 1.1 | 4.3 |

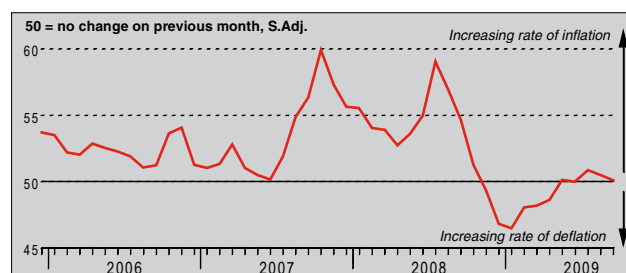


The seasonally adjusted Employment Index maintained its largely sideways trajectory in September, showing another slight expansion of staffing numbers in Brazil's service economy. Job creation predominantly stemmed from higher activity levels and company expansions. However, as has been the case since throughout the survey history, the vast majority of the survey panel (around 94%) reported no change to personnel levels.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 2.1 | 97.3 | 0.6 | 1.6 |

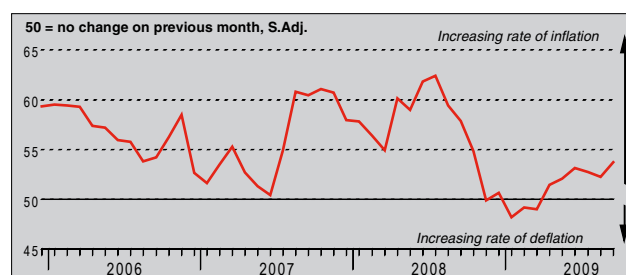


Prices charged by Indian service providers were largely unchanged in September. Inflation has slowed over the past two survey periods from July's nine-month high. Where output prices were raised, companies stated that this was to take advantage of improved demand conditions and protect their profit margins. However, competitive pressures prevented many firms from passing on higher costs to customers.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 12.9 | 85.3 | 1.8 | 11.0 |

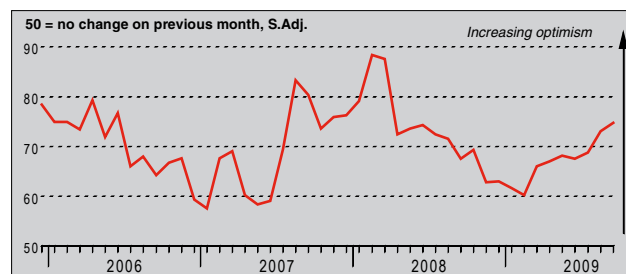


Average input prices across India's service sector rose for the sixth month running in September. Moreover, inflation accelerated to a solid rate that was the fastest for nearly a year. Respondents commented on greater fuel, raw material and wage costs. Companies in the Hotels & Restaurants sector particularly noted higher prices for food, while those in Transport & Storage highlighted the increased cost of diesel. However, inflation remained below its long-run average.

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 +/- |
|-------------|-----|----------|--------|---------|---------|
| 2009 | 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 |
| | Sep | 49.6 | 50.4 | 0.0 | 49.6 |



Indian service providers were strongly confident about future activity levels in September. Approximately half of panel members anticipate output growth in twelve months' time, while none foresee a drop in activity. Consequently, the Business Expectations Index registered its highest reading for eighteen months. Furthermore, the index was above its long run average. Better market conditions, company expansions, advertising and government investment in infrastructure were all given as reasons for positive sentiment.

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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