HSBC Purchasing Managers' Index 2009

compiled by markit

Embargoed until: 10:30 (MUMBAI), 4 November 2009

HSBC India Services PMI

Indian service sector growth picked up in October. Employment grew at fastest pace for fourteen months.

Key findings:

- Activity, new business and employment growth all accelerated.
- Input price inflation eased, while charge inflation picked up marginally.
- Positive sentiment highest since March 2008.

India's service economy remained in good health at the start of the year's final quarter, with new work, activity and employment all expanding at faster rates. With regard to prices, charges increased at a slightly quicker pace, while input cost inflation eased. Consequently, positive sentiment regarding activity in the year ahead climbed to a nineteen-month high.

After slipping to a three-month low of 54.4 in September, the headline seasonally adjusted HSBC Business Activity Index gained ground in October, registering 56.8 – its highest reading in over a year. The latest figure pointed to a substantial increase in Indian services activity, with over one-third of panel members recording a rise. All monitored services sub-sectors posted output growth on the month, although this was only modest for 'Other Services'. Reports indicated that activity expanded on the back of greater volumes of new work.

Incoming new business to the Indian service sector increased at a marked pace during October, which panel members attributed to better economic conditions, fruitful marketing activity and strong reputations for quality. Only one sub-sector – 'Other Services' – recorded lower levels of new work since September.

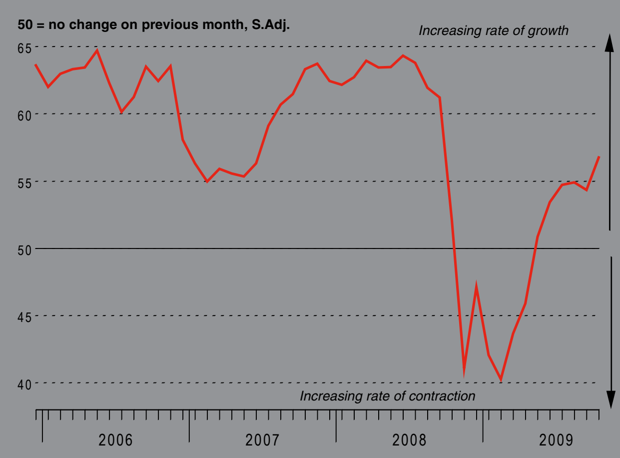
Both outstanding business and employment rose during the latest survey period, suggesting the existence of capacity constraints at Indian service firms. Work-in-hand built up for the sixth straight month, and at a modest pace. Concurrently, staff were hired at the most marked rate since August 2008 as workloads increased.

Prices charged by Indian service providers continued to rise in October, extending the current period of inflation to four months. Anecdotal evidence indicated that tariffs were raised primarily to protect profit margins. However, the rate of increase remained only mild and far weaker than the pre-crisis trend. Data showed that output price inflation was centred on the Hotels & Restaurants, Transport & Storage and 'Other Services' sectors.

Indian service firms noted another increase in their input cost burdens in October. Average input prices in the sector have climbed for the past seven months, although the latest round of inflation was only modest. Survey participants principally blamed higher raw material and wage costs for the rise. Greater medicine and food-related prices were particularly noted by companies in the 'Other Services' and Hotels & Restaurants sectors. However, the most marked inflation was registered by Post & Telecommunications firms.

Positive sentiment regarding business activity in the year ahead rose further during October. Respondents anticipating output growth linked this belief to better economic conditions, advertising campaigns and strong company reputations. No panellists foresee a drop in activity over the next twelve months. Post & Telecommunications companies were the most optimistic about the future.

Business Activity Index



Summary of Survey Findings

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.

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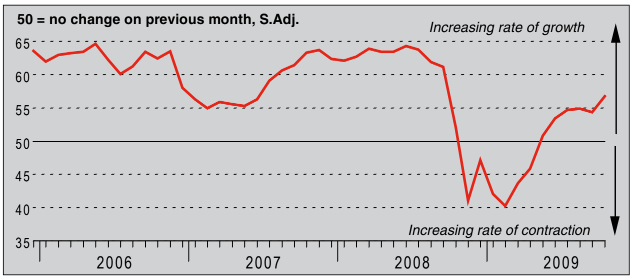
Business Activity Index

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	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
	Oct	34.0	52.2	13.8	20.2

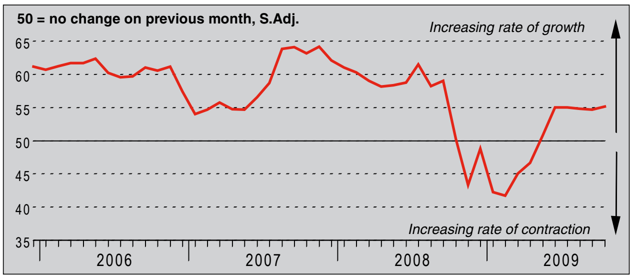


The seasonally adjusted Business Activity Index climbed to the highest level in over a year at the start of the fourth quarter. The latest figure pointed to a considerable rise in Indian service sector output, with more than one-third of the survey panel recording growth. Sector data revealed that the expansion was broad-based across all monitored services sub-sectors, although growth was only modest for 'Other Services'. Respondents indicated that a faster inflow of new business supported the latest overall increase in activity.

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	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
	Oct	25.2	63.5	11.3	14.0

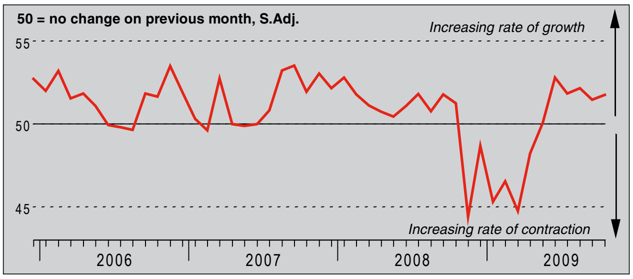


Improved conditions in the wider economy, alongside successful marketing initiatives and strong reputations underpinned the latest rise in new business, according to panellists. New work taken by Indian service providers rose for the sixth consecutive month and at a marked pace that was the fastest since September 2008. Only 'Other Services' registered a fall in new business since September – the remaining sub-sectors all recorded solid to sharp rates of growth.

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	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
	Oct	9.5	84.7	5.8	3.8

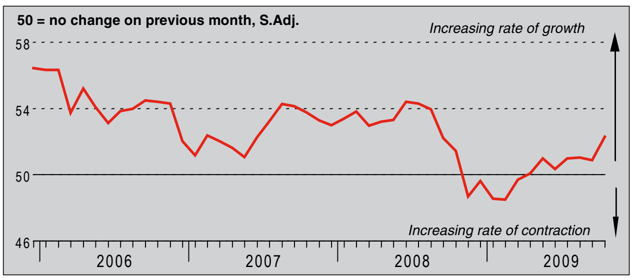


Unfinished business across India's service economy increased for the sixth successive month in October. The rate of accumulation was modest and similar to that recorded in September. Only Renting & Business Services saw work-in-hand fall, but this was only slight. By far the fastest rise in backlogs occurred in the Post & Telecommunications sector. Anecdotal evidence suggested that increased workloads and delays caused by clients underpinned the latest overall growth.

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	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
	Oct	10.2	86.9	2.9	7.4

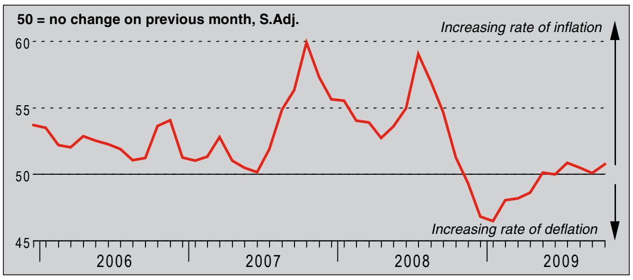


Employment expanded across almost all of the monitored services sub-sectors in October. Financial Intermediation companies largely maintained their workforces on the month. Overall, India's service sector labour force rose moderately since September, and at the fastest pace since August last year. Additional personnel were hired to accommodate greater workloads, which stemmed from further gains in new business since September.

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	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
	Oct	6.1	91.4	2.5	3.6

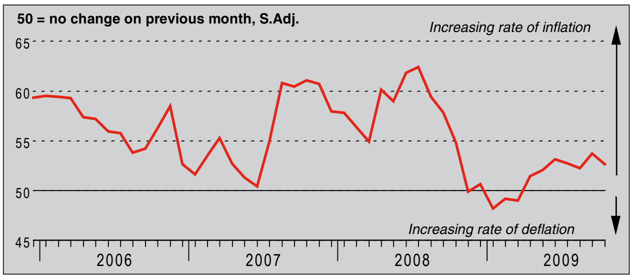


Indian service firms held on to a degree of pricing power in October, raising their tariffs for the fourth month running and at a slightly faster rate. However, inflation remained only marginal. The seasonally adjusted Prices Charged Index has not moved more than one point above 50.0 since the six-month downturn in charges ended in May. Panellists stated that their rates were increased in order to pass on part of their cost burdens to customers. Inflation was concentrated in the Hotels & Restaurants, Transport & Storage and ‘Other Services’ sectors.

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	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
	Oct	9.7	88.5	1.9	7.8

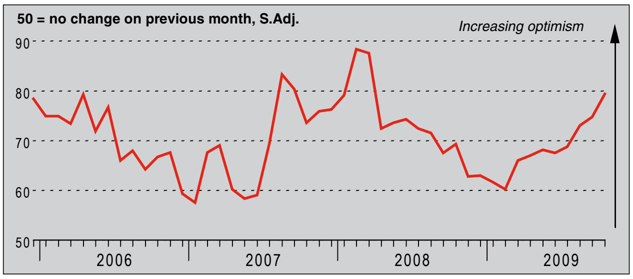


Average input costs faced by Indian service providers continued to climb at the beginning of Q4. Although weaker than in September, inflation remained solid, with approximately 10% of respondents recording an increase. Higher salaries and more expensive raw materials were key factors behind the latest rise. Firms in the Hotels & Restaurants sector, which registered a rapid rise in input prices, made particular note of food-related costs. Meanwhile, those in the ‘Other Services’ sector mentioned greater prices for medicines.

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	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
	Oct	58.9	41.1	0.0	58.9



Latest data indicated a high degree of optimism amongst Indian service companies regarding activity levels over the coming year. Moreover, confidence was the most elevated for nineteen months and comfortably above its pre-downturn average. Reports signalled that better market conditions, promotional strategies and good reputations were the main reasons for increased confidence. No panellists were pessimistic about the future. Positive sentiment was most widespread in the Post & Telecommunications sector, and least among Renting & Business Services firms.

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.

Warning