HSBC Purchasing Managers' Index 2010

compiled by markit

Embargoed until: 10:30 (MUMBAI), 6 January 2010

HSBC India Services PMI

Services activity growth picked up to fifteen-month high in December.

Key findings:

- Expansion in new business accelerated to considerable pace.
- Further increase in employment.
- Input price inflation gathered pace, while services firms modestly raised charges.

December PMI data marked a positive end to 2009 for the Indian services economy. Growth of business activity and new work accelerated, leading to further job creation. The latest expansions in output and demand were broad-based, with all of the sub-sectors covered by the survey reporting increases.

The headline seasonally adjusted HSBC Business Activity Index posted 57.4 in December, up from 55.2 in November. The gain in the index reversed the slight loss of momentum signalled in the previous month and took the rate of expansion to its highest since September 2008. The performances of the Financial Intermediation and Transport & Storage sectors were especially robust. Growth of overall activity was supported by marked gains in incoming new business.

December data indicated that the level of new work received by Indian service providers rose for the eighth month running. After easing in November, the rate of expansion accelerated to reach a fifteen-month high. Companies linked higher levels of new business to improving market conditions and successful promotional initiatives. As with activity, all monitored sectors posted higher new business, with Transport & Storage and Financial Intermediation companies reporting the strongest gains in new work.

Continued growth of activity and new business placed additional pressure on active capacity at Indian service providers. Subsequently, levels of both employment and backlogs of work posted further increases.

Employment rose for the ninth consecutive month in December. Although the rate of jobs growth was only slight, it was faster than in the previous month. Survey evidence indicated that the latest upturn in staffing levels was broad-based, with five of the six sectors covered reporting an increase.

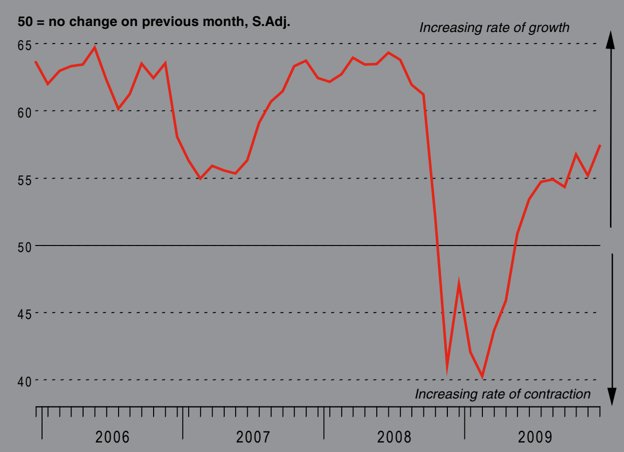
December saw the volume of outstanding business in the Indian service sector rise at the fastest pace for six months. Backlogs of work have now been accumulating continuously since May. Apart from rising levels of new business, companies also attributed growth of work-in-hand to client delays.

Price indicators rose in December, suggesting that inflationary pressures may be building in the Indian service sector. Average input costs increased for the ninth straight month, reflecting higher salaries and increased purchase prices. Firms in the Hotels & Restaurants sector made specific reference to higher costs for food products.

Average charges rose for the fifth time in the past six months in December. However, the average rate of increase recorded during this period has been only weak.

Business confidence regarding levels of activity in one year's time remained high in December. Strong reputations for quality, better economic conditions and marketing campaigns were all reasons provided for optimism. However, the degree of positivity fell, as a higher proportion of companies reported that they expect activity to be broadly similar to current levels at the end of next year.

Business Activity Index



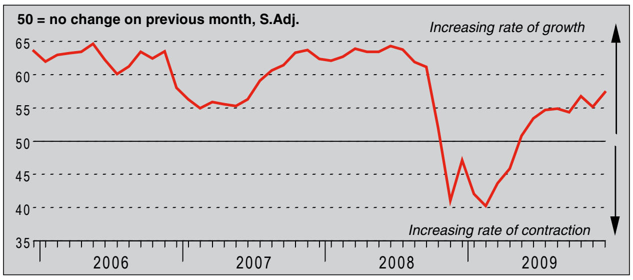
Summary of Survey Findings

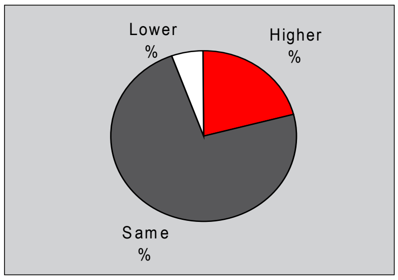
The survey uses a methodology identical to the HSBC India Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of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

The world's local bank

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.

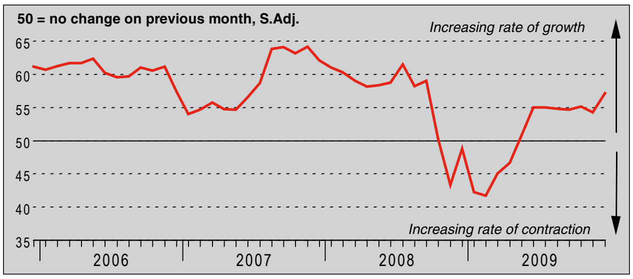


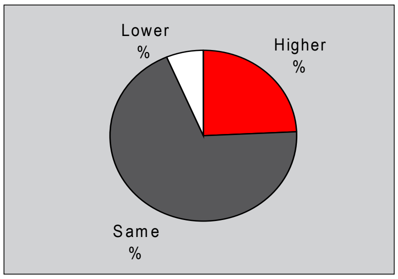


A faster increase in incoming new business led Indian service providers to raise their activity levels in December. Output expanded at a considerable pace that was the most marked since September 2008. More than 21% of the survey panel recorded higher activity in December, against less than 6% that noted a fall. Output growth was registered across all six surveyed sub-sectors, although this was most pronounced in Financial Intermediation.

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.

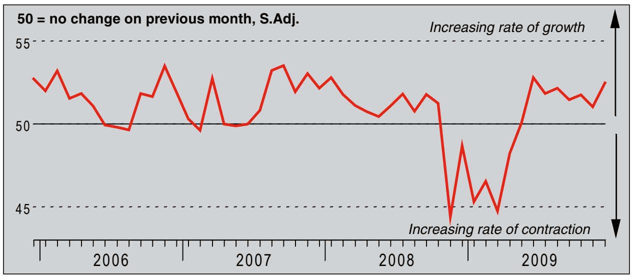


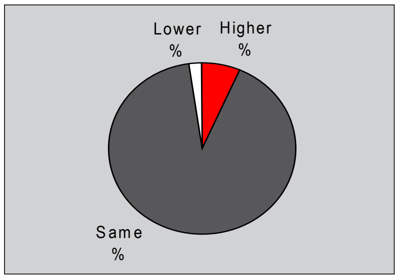


Favourable economic conditions and successful promotional initiatives contributed to December's rise in new business at Indian service providers. Growth of new work accelerated since November to a sharp pace. Moreover, data showed that the latest increase was the fastest for fifteen months. Transport & Storage and Financial Intermediation posted the most marked expansions in new business, while gains were only modest in 'Other' Services.

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.

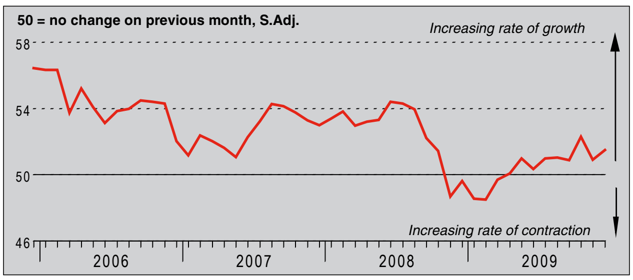


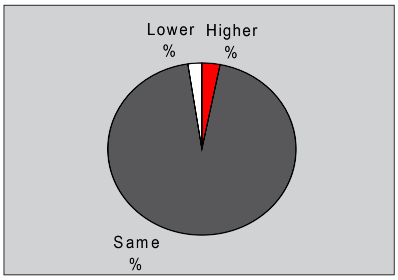


Accelerated growth of incoming new work led to a faster accumulation of backlogs during December. The seasonally adjusted Outstanding Business Index rose to its highest level for six months and signalled a moderate increase in work-in-hand at Indian service companies. Furthermore, the rate of growth was quicker than the series' pre-downturn trend. Anecdotal evidence suggested that client delays also contributed to the build-up.

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).

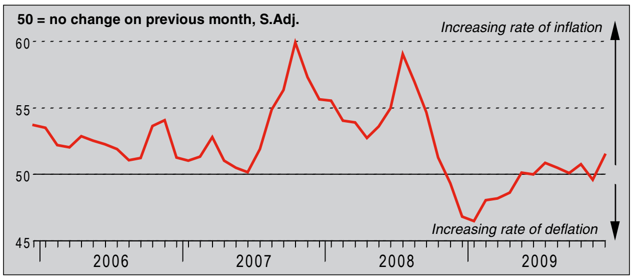


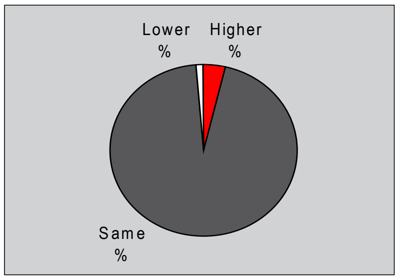


To accommodate higher workloads, Indian service providers hired more staff during December. Employment grew for the ninth month in succession, and at a faster pace than in November. Even so, the expansion remained subdued in relation to the series' historic trend. All-but-one of the monitored services sub-sectors took on additional personnel during the latest survey period. Hotels & Restaurants continued to rationalise their workforces, although only slightly.

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.

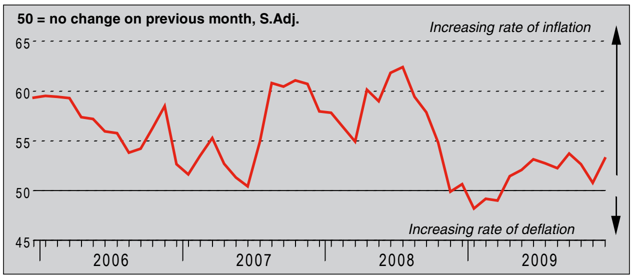


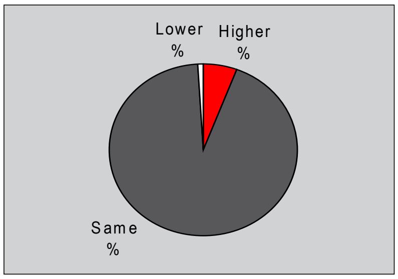


After falling slightly in November, prices charged for Indian services increased during December. Output prices have risen in five of the past six months, although inflation over this period was very weak. That said, the latest rise was the fastest since September 2008. Hotels & Restaurants, ‘Other’ Services and Renting & Business Activities all raised their tariffs at the end of the final quarter. Charges were unchanged in the Post & Telecommunications sector.

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.

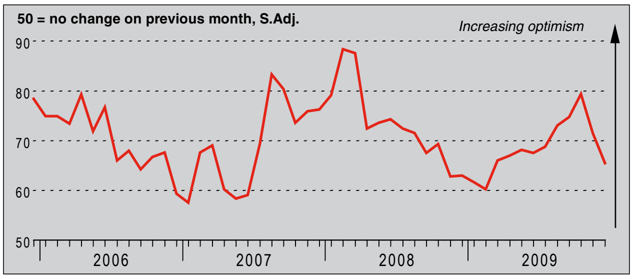


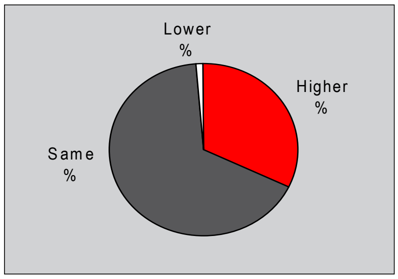


Average input costs faced by Indian service companies rose for the ninth straight month at the end of Q4. Moreover, inflation accelerated to a solid pace that was the fastest since September. Greater employment and raw material expenses were behind the latest increase, according to respondents. All surveyed services areas posted higher input costs since November. Firms in the Hotels & Restaurants sector made particular note of food-related cost increases, while those in ‘Other’ Services commented on greater medicine and medical good 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?





Indian service firms anticipate higher activity levels in the year ahead. Just under one-third of survey participants were confident in December that output will rise in future, while only 1% anticipate a fall. Strong reputations for quality, better economic and financial conditions, and more marketing were major reasons for optimism. However, the degree of positive sentiment fell sharply since November, as a greater proportion of companies reported that they expect activity in twelve months’ time to be broadly similar to current levels.

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