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## HSBC India Services PMI

Activity growth accelerated in January, supported by further sharp increase in new work.

### Key findings:

- Job creation accelerated slightly.
- Input and output prices rose faster.
- Outlook for coming year remained relatively positive.

Though still lower than its pre-downturn trend, Indian service sector activity growth continued to accelerate in the first month of 2010, supported by another improvement in underlying demand. Consequently, firms were encouraged to add to their workforces. Respondents retained optimism for growth in the proceeding twelve months, although the degree of confidence remained historically subdued.

Up for the second month running, the headline seasonally adjusted HSBC Business Activity Index posted 59.0 in January – its highest level since September 2008. The latest reading pointed to a considerable expansion of output, which respondents linked to higher volumes of new business. Of the six service sub-sectors monitored by the survey, Hotels & Restaurants posted the fastest growth of activity, followed by Postage & Telecommunications. Only 'Other' Services recorded lower output on the month.

Incoming new work to the Indian service sector increased for the ninth month running at the start of Q1. Growth was sharp, and little-changed from the rate recorded in December. Reports suggested that demand was supported by better economic conditions, successful marketing activities and service firms' strong reputations for quality. Financial intermediaries also noted an improved investment environment.

Unfinished business continued to accumulate at Indian service companies during January, as workloads increased. However, the rate of growth slowed since the previous month to only a fractional pace. Where backlogs were depleted, panellists

commented on efforts to clear outstanding contracts.

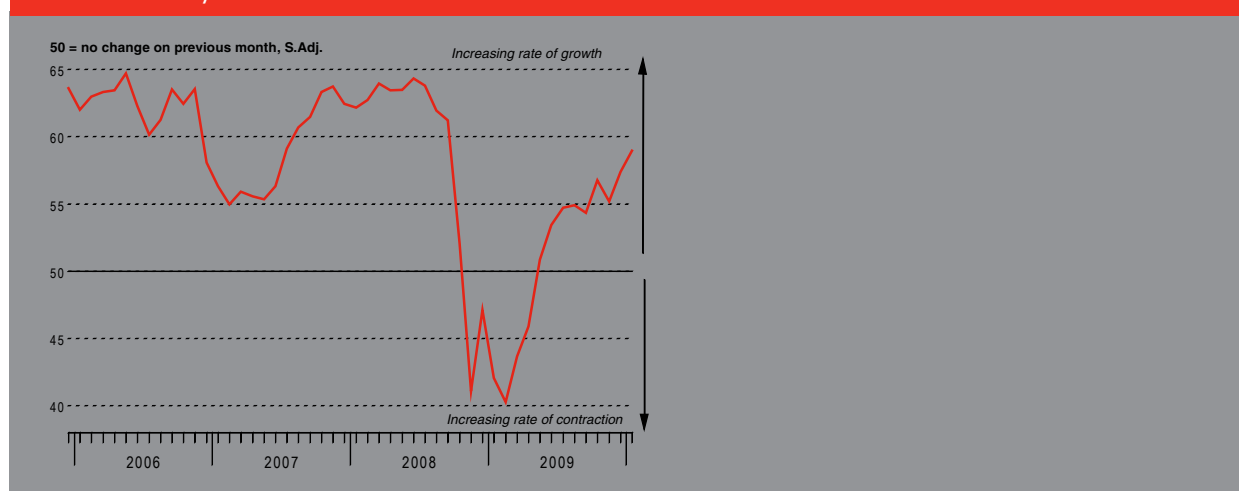
Employment at Indian service providers increased in January, extending the current period of expansion to ten months. Growth accelerated slightly since December, but remained only moderate and weak in relation to the pre-financial crisis trend. Anecdotal evidence indicated that stronger demand for services necessitated the hiring of more workers. Job creation was fastest in Transportation & Storage and Postage & Telecommunications.

Service firms raised their charges in January, either to expand profit margins or to pass on part of their greater cost burdens to customers. Companies have increased their tariffs in seven of the past nine months, and the latest round of inflation was the sharpest since September 2008.

Input prices faced by India's service providers climbed for the tenth month in succession during the latest survey period. Moreover, inflation accelerated to a marked pace. Panel members reported that higher wage and raw material costs were behind January's increase. Greater prices for food products, medicines and drugs were highlighted by several firms.

Output is set to rise over the next year, according to latest survey data. Anecdotal evidence showed that improved operating conditions, promotional campaigns and good reputations for quality underpinned service firms' confidence. However, optimism remained subdued by historical standards, despite rising since December.

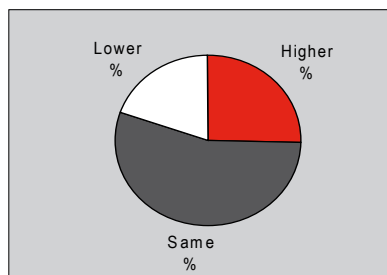
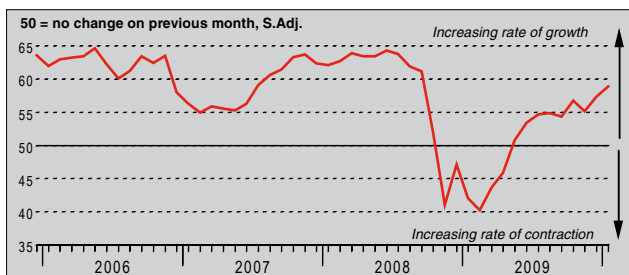
### Business Activity Index



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.

### Business Activity Index

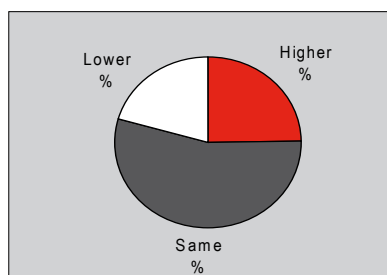
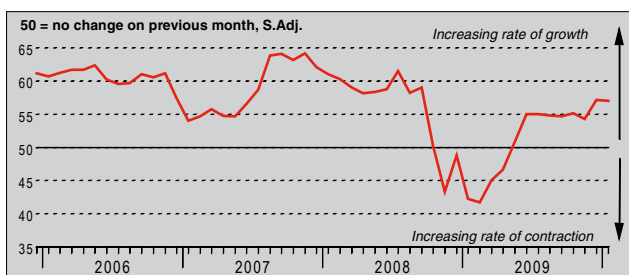
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Indian service sector activity expanded at an accelerated pace at the start of Q1, with around one-in-four respondents noting an increase. The latest growth was considerable and the most marked for sixteen months. Panellists indicated that output was supported by further gains in new business. Of the six service sub-sectors monitored by the survey, Hotels & Restaurants was the best performer. Only 'Other' Services recorded a contraction in activity.

### New Business Index

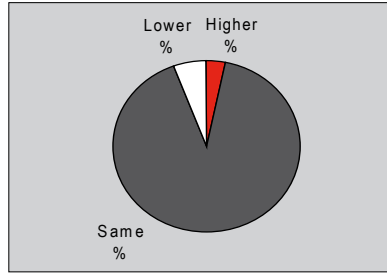
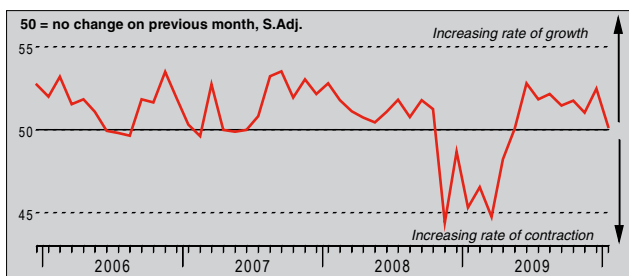
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index was broadly unmoved from December's fifteen-month high in January, pointing to another sharp rise in new work taken by Indian service firms. Reports showed that the main contributors to growth were better economic conditions, successful promotional campaigns and good reputations for quality. Financial Intermediaries noted that customers were more willing to invest. Incoming new business has now risen for nine successive months.

### Outstanding Business Index

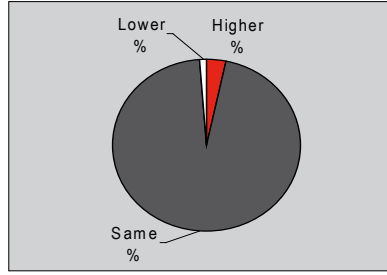
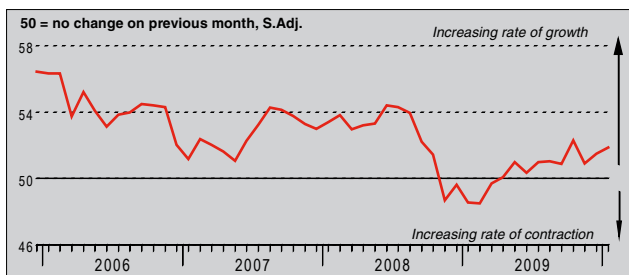
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Volumes of outstanding business at Indian service providers rose only fractionally in January. The pace of accumulation slowed from December's six-month high, reflecting the efforts of some firms to catch up on unfinished contracts. Where backlogs built up on the month, this was frequently attributed to a combination of greater workloads and delays caused by clients. However, the vast majority of survey members (over 91%) saw no change to the amount of work-in-hand at their units.

### Employment Index

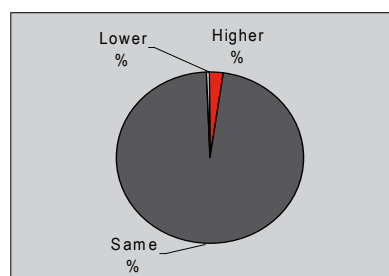
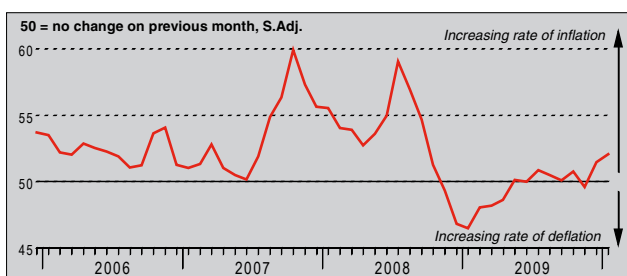
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Greater workloads and improved operating conditions encouraged Indian service providers to take on additional personnel during the latest survey period. Employment in the sector has now risen for ten straight months – twice as long as the downturn in late 2008/early 2009. The latest expansion was the most marked since October of last year. However, when compared to the pre-crisis trend, January's moderate rate of increase was subdued.

## Prices Charged Index

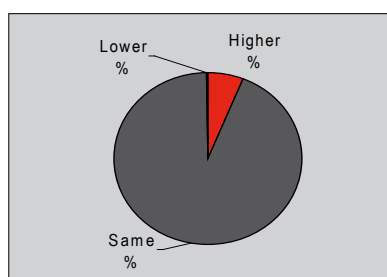
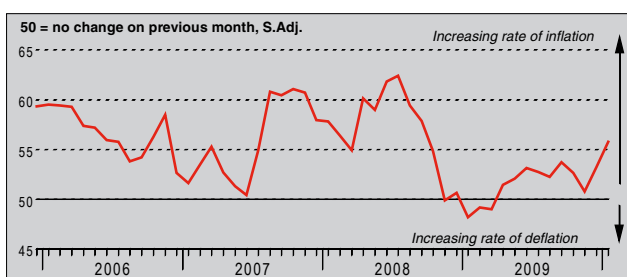
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service firms took advantage of favourable market conditions and raised their charges in January. Some companies increased their tariffs purely to improve profit margins, though many did so to cover part of their greater cost burdens. Output prices have risen in seven of the past nine survey periods. Although only moderate, the latest inflation was nevertheless the fastest since September 2008. Output prices generally increased across the services economy at the start of 2010.

## Input Prices Index

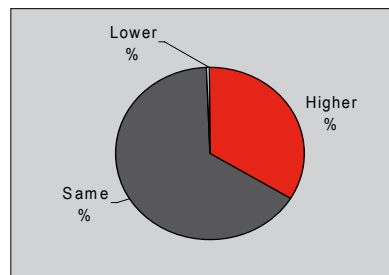
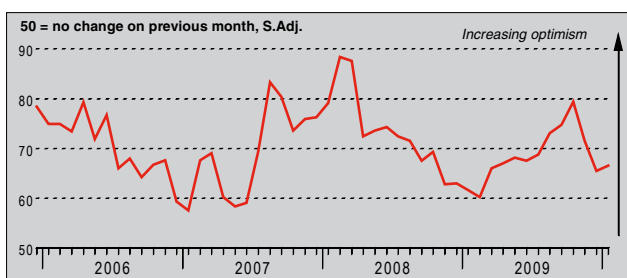
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Driving January's input price inflation were greater wage and raw material costs, according to respondents. Indian service providers made particular reference to increased costs of food products, medicines and drugs. Average input prices in the sector have risen during every month since April 2009. The latest seasonally adjusted Input Prices Index reading was the highest for sixteen months and signalled a marked rate of inflation.

## 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?



The Business Expectations Index was up from its ten-month low in January, albeit only slightly. Over one-third of companies expect output to increase over the coming twelve months, while less than 1% anticipate a contraction over this period. Favourable market conditions, advertising campaigns and strong reputations for quality were the key reasons for positive sentiment given by respondents. However, compared with the series trend, optimism regarding future activity levels remained relatively weak.

## 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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