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## HSBC India Services PMI

Demand for Indian services remained strong in March, contributing to a further rise in activity and price pressures.

### Key findings:

- Growth of activity and new business slowed, but remained considerable.
- Job creation persisted at moderate pace.
- Both input and output price inflation accelerated.

Business conditions across India's services economy remained favourable in March, despite slightly weaker expansions in activity, new work and employment. Amid a better economic climate, companies looked to improve profit margins. Charges were raised at the fastest rate for a year-and-a-half, bringing output price inflation more in line with the increase in input costs.

At 58.1, the headline seasonally adjusted HSBC Business Activity Index was down on February's seventeen-month peak of 60.9, signalling a slowdown in the rate of output growth. Even so, activity continued to expand at a considerable pace. Taking a quarterly average of the headline index shows that Q1 2010 was the most successful quarter in terms of activity expansion since Q3 2008. By sector, output rose fastest in Post & Telecommunications.

Underlying the increase in Indian service sector activity was a similarly-sharp expansion of new business. Over one-quarter of companies recorded more new work on the month, citing better economic and financial conditions, greater efforts to promote their services and good reputations. All six monitored sub-sectors posted higher volumes of new business in March.

There was evidence of capacity pressures at Indian service providers during the latest survey period, as outstanding business and employment both continued to rise. Data pointed to a moderate and accelerated accumulation of backlogs, which

firms linked to greater workloads and delays in client payments. Meanwhile, March marked one year of rising staffing numbers in the sector. Panel members stated that workforces were raised at a modest rate as business requirements increased.

Indian service companies remained highly optimistic about future activity levels in March, albeit less so than in February. Over 45% of respondents were confident that output will expand over the next twelve months. This contrasted with less than 5% that foresee a contraction. Anecdotal evidence suggested that improved financial and economic conditions and lower interest rates were major reasons for positive sentiment. Panel members also commented on greater marketing efforts, business investments and expansions, and strong company reputations for quality.

Data showed that both input and output price inflation accelerated on the month. Hikes in wage, fuel and raw material costs drove the robust increase in input prices, according to panellists. Firms in the Hotels & Restaurants sub-sector, where input price inflation was fastest, particularly noted higher food-related expenses.

Indian service charges were raised at a solid pace at the end of the first quarter, extending the current sequence of inflation to four months. Reports indicated that this was in response to a combination of greater cost burdens and more favourable demand conditions.

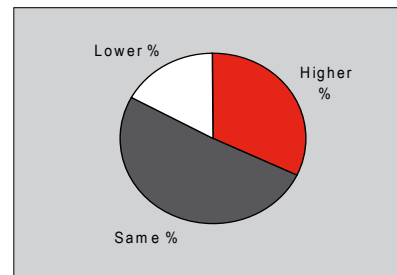
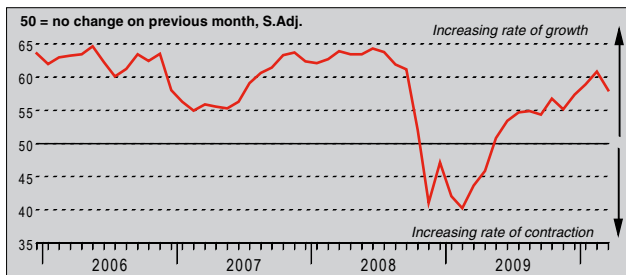
### Business Activity Index



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

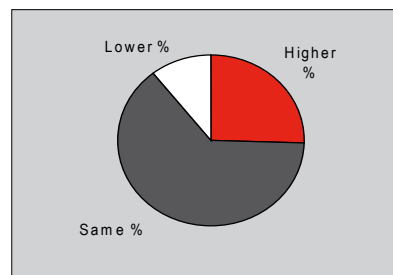
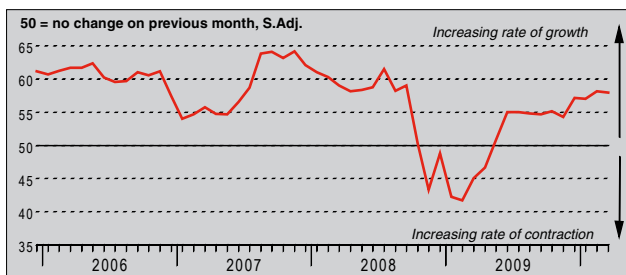
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



After reaching a seventeen-month peak in February, the seasonally adjusted Business Activity Index slipped to a three-month low at the end of Q1. Even so, with over 32% of panel members raising activity levels during March, the pace of expansion was sharp and above the series average. All six monitored service sub-sectors posted higher output on the month, citing better demand conditions and further gains in new business. Of these, Post & Telecommunications recorded the fastest increase.

## New Business Index

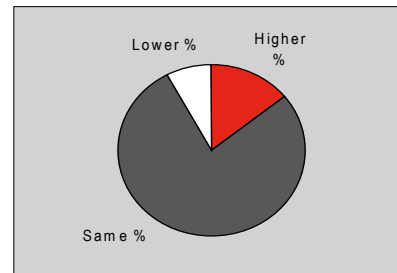
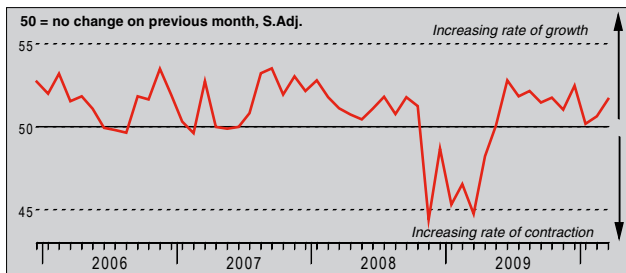
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Reports indicated that improved economic and financial climates, alongside increased marketing efforts and strong company reputations for quality, underpinned demand for Indian services in March. With over one-quarter of surveyed companies recording a rise in new work on the month, the pace of expansion was substantial and little-changed from February's seventeen-month high. Data showed that Q1 2010 was the strongest quarter in terms of new business growth since Q3 2008.

## Outstanding Business Index

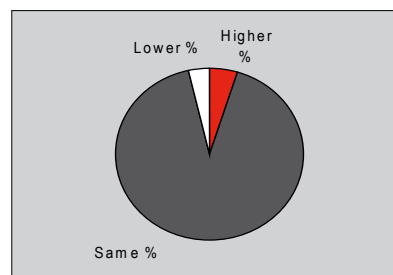
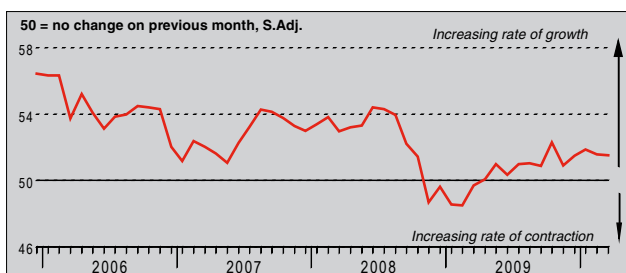
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



As new workloads continued to grow during March, Indian service providers noted a faster accumulation of backlogs. Data pointed to a moderate rate of increase, following two months of only weak expansion. Anecdotal evidence suggested that payment delays by customers also contributed to the build up of outstanding contracts. Companies in the sector have noted rising volumes of unfinished business for almost a year, in line with growth of new work.

## Employment Index

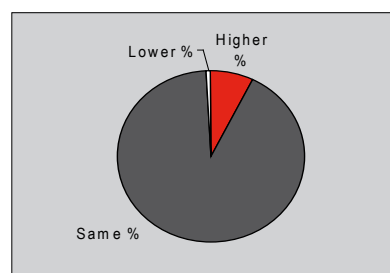
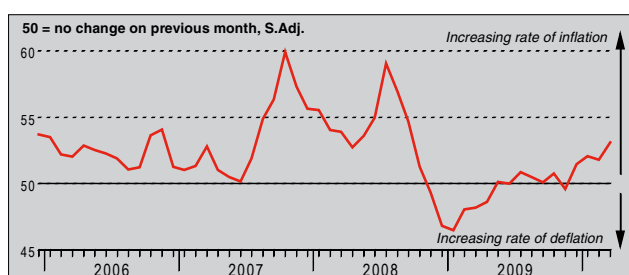
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index registered at a similar level to the previous three months in March, indicating that the pace of job creation at Indian service firms has been broadly constant over this period. The latest reading pointed to another moderate rise in personnel numbers, with panellists attributing this to greater business requirements and company expansions. However, growth remained below the pre-downturn trend.

## Prices Charged Index

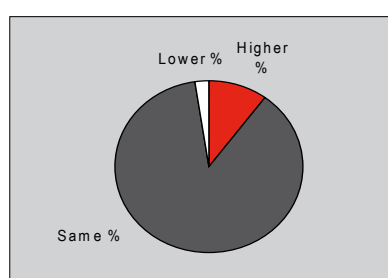
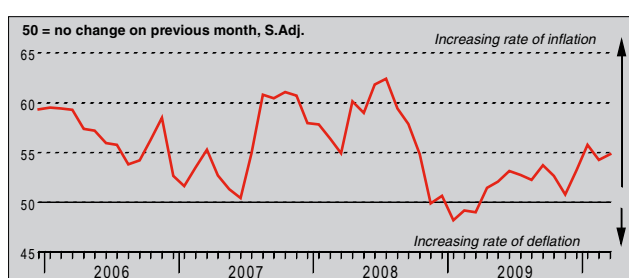
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged for Indian services rose at a solid and accelerated pace during the latest survey period, bringing the rate of increase more in line with input cost inflation. Panellists cited greater cost burdens and profit-making strategies, implemented to take advantage of favourable demand conditions, as the key factors driving March's rise in output prices. Even so, inflation remained subdued in relation to the pre-crisis series trend. Sector data showed that tariffs rose fastest in the Hotels & Restaurants and Transport & Storage sectors.

## Input Prices Index

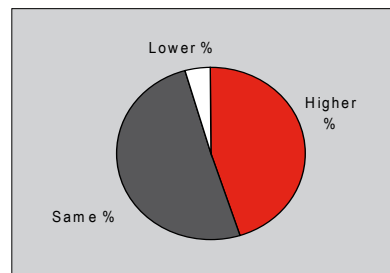
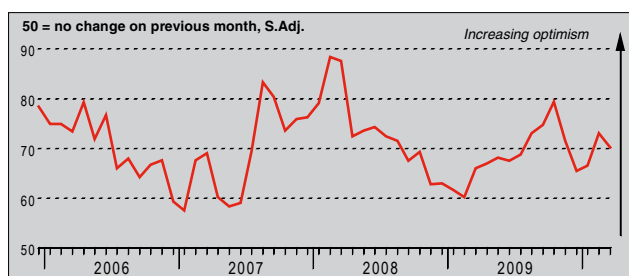
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



With over one-tenth of Indian service providers recording higher wage, fuel and raw material costs, input price inflation accelerated to a robust pace in March. Companies in the Hotels & Restaurants sector, where the fastest rise in input costs was recorded, particularly commented on higher expenses for foodstuffs. However, overall inflation for the services industry was only slightly more marked than in February and remained weaker than the series trend.

## 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?



Positive sentiment amongst Indian service firms regarding activity in the next year remained elevated in March, albeit less so than in February. Reports indicated that more favourable financial and economic conditions, as well as lower interest rates, were key reasons for optimism. Greater marketing efforts, company investments and expansions, and good reputations were also expected to support demand in the preceding twelve months.

## 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

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