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HSBC India Services PMI

Activity and new business growth accelerated in April, leading to faster rise in employment. Price pressures continued to mount.

Key findings:

- Output and new work rose sharply.
- Employment increased at solid pace.
- Both input and output price inflation picked up.

The headline seasonally adjusted HSBC Business Activity Index climbed to a twenty-one month high of 62.1 at the start of Q2, pointing to an uptick in Indian service sector output growth. The reading signalled a sharp rise in activity levels at service providers, with more than two-fifths of panellists recording an expansion since March. Firms stated that activity was raised in order to accommodate further gains in new business. Output in the sector has now been increasing for a year.

Volumes of new work received by Indian service providers continued to rise in April, which panellists linked to favourable economic conditions, successful marketing activities and good company reputations. Growth was substantial and the most pronounced since July 2008. Sector data revealed that new business rose fastest in the Postage & Telecommunications and Transport & Storage sub-industries.

To support higher activity levels, Indian service firms took on additional staff during April. Employment in the sector increased solidly and for the thirteenth month in succession. However, growth remained weaker than the pre-downturn trend. Five of the six monitored sub-sectors registered a rise in staffing numbers since March, with Transport & Storage recording the strongest expansion. Personnel levels fell in Renting & Business Activities.

Volumes of outstanding business accumulated at a moderate and accelerated pace at Indian service providers during the

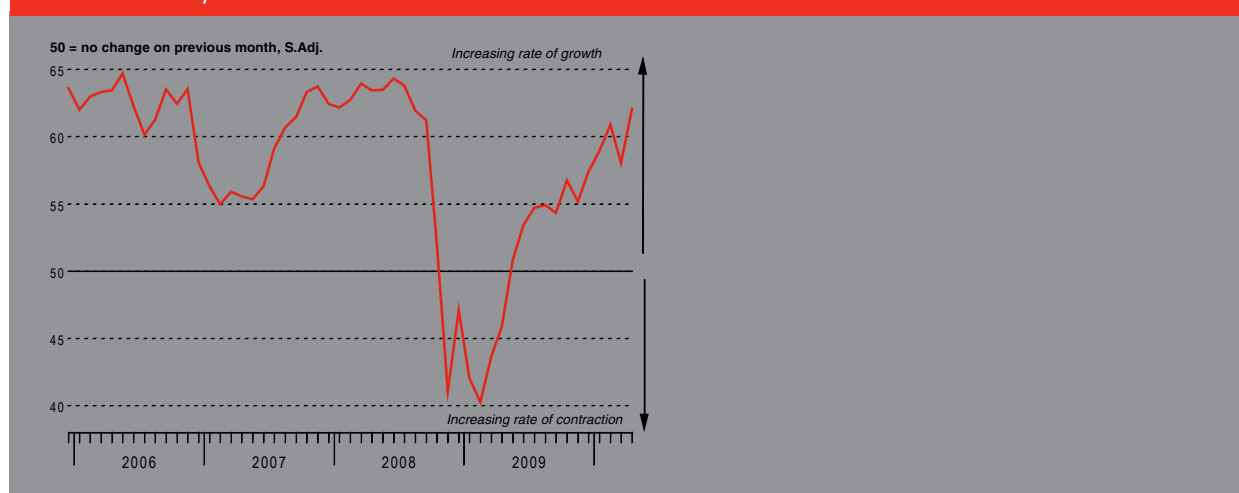
latest survey period. Anecdotal evidence suggested that greater workloads and delays caused by clients were behind the latest build up, which was the twelfth in succession.

Reflecting better operating conditions and further growth in both new business and output, optimism amongst Indian service companies was high in April. Over 45% of respondents indicated that they were confident of an increase in output in a year's time. Advertising campaigns, business expansions into new markets and strong reputations were also reasons for positive sentiment, according to panellists.

Higher wage, fuel and raw material prices exerted upward pressure on average input costs in April. Input price inflation faced by service firms accelerated to a sharp pace on the month. Survey participants made particular reference to greater prices for food products, medical equipment and building-related items. Firms have now reported rising input costs for over a year.

Partly to protect profit margins from growing cost burdens, but also to take advantage of favourable market demand, Indian service providers raised their charges in April. Output prices increased at a marked and accelerated pace, as one-tenth of companies upped their tariffs. Data showed that charges rose fastest in the Hotels & Restaurants and Postage & Telecommunications sectors.

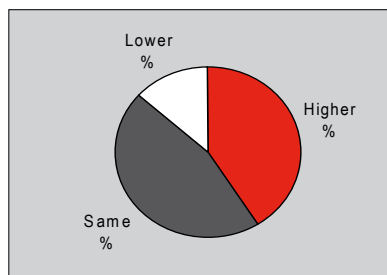
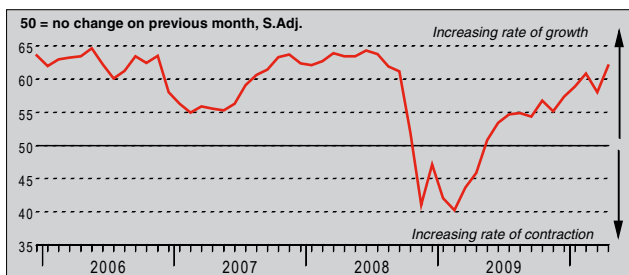
Business Activity Index



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

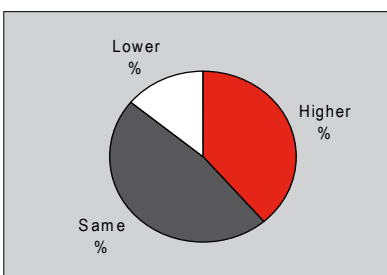
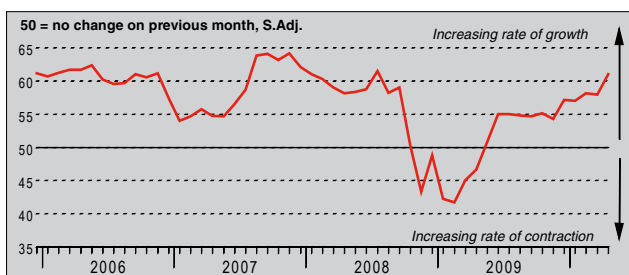
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



April marked one year of Indian service sector activity growth, following a downturn that lasted six months. The latest rise was considerable and the fastest since July 2008, with more than two-fifths of panel members recording an expansion in output. Moreover, growth was sharper than the series' pre-downturn trend. Firms linked higher activity to further gains in new business. Of the six sub-sectors covered by the survey, Postage & Telecommunications and Transport & Storage registered the most pronounced increases in activity.

New Business Index

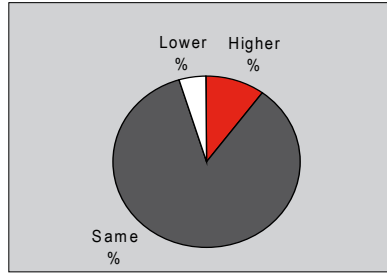
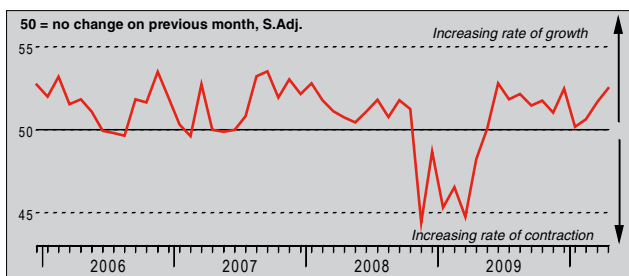
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Indian service providers reported a faster inflow of new work during the latest survey period. Climbing to a twenty-one month high, the seasonally adjusted New Business Index pointed to a substantial rate of growth. Anecdotal evidence suggested that an improved economic environment, additional promotional activities and strong company reputations had supported demand in April. New work in the sector has now risen successively for a year.

Outstanding Business Index

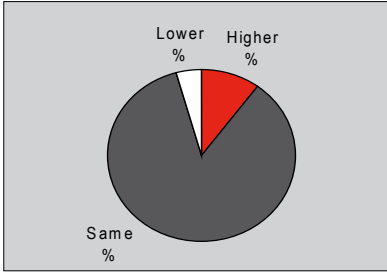
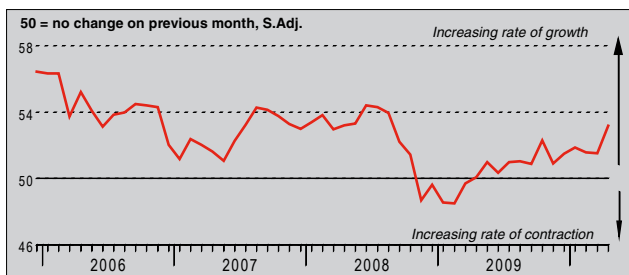
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Greater workloads and delays caused by clients resulted in another build up of unfinished business at Indian service providers in April. Data signalled a moderate rate of accumulation that was the sharpest since December last year. Backlog growth has now gained pace in each of the past three months. By sector, volumes of outstanding business only fell in Financial Intermediation. Meanwhile, Renting & Business Activities posted the fastest increase in work-in-hand.

Employment Index

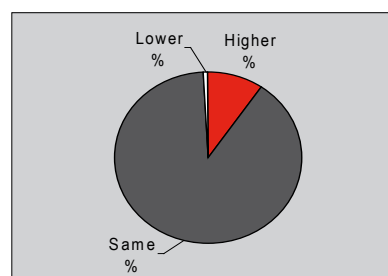
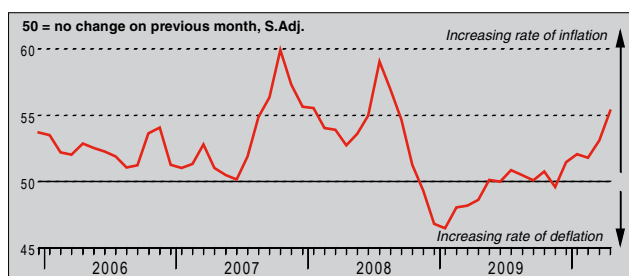
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Job creation persisted in April, bringing the current sequence of growth to thirteen months. Furthermore, with over one-tenth of Indian service providers taking on more workers, the sector's labour force expanded at a solid and accelerated pace. Panellists cited greater business requirements as the key factor behind decisions to hire additional personnel. Transport & Storage recorded the most marked increase in staffing numbers, while Renting & Business Activities posted a slight fall.

Prices Charged Index

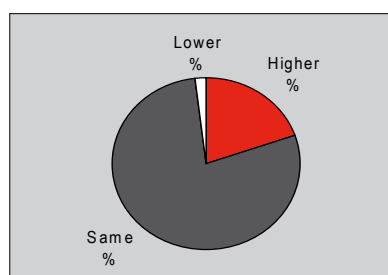
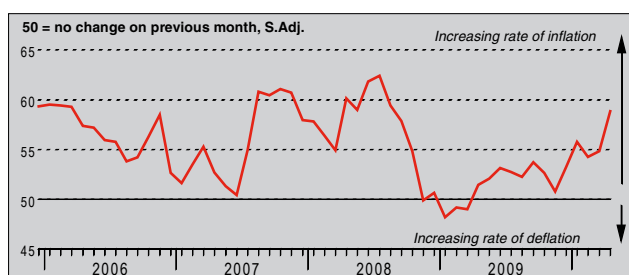
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



A combination of better economic conditions and greater cost burdens led Indian service firms to raise their charges during April. About one-tenth of monitored companies lifted their rates, compared with less than 1% that cut them. Output prices in the sector have increased for five consecutive months, with the latest rise marked and the fastest since August 2008. Sector data revealed that output price inflation was sharpest at Hotels & Restaurants and Postage & Telecommunications companies.

Input Prices Index

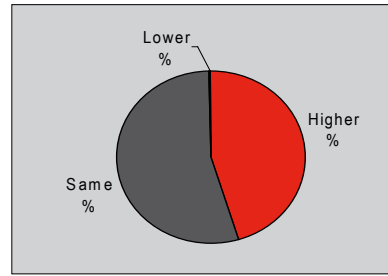
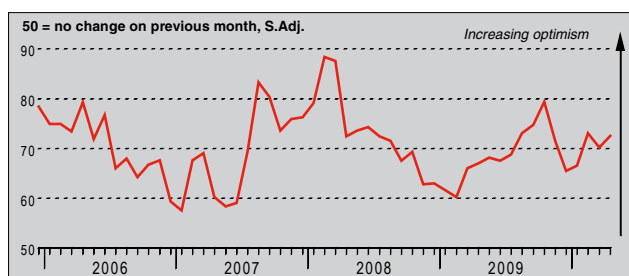
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation faced by Indian service companies accelerated sharply at the start of 2010's second quarter. With approximately one-fifth of respondents noting higher input costs since March, the rate of increase was substantial. Greater wage, fuel and raw material prices drove the rise, according to survey participants. Firms made particular reference to higher prices for food products, medical equipment and building-related items.

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 providers were optimistic in April regarding future activity levels. Over 45% of respondents were confident of a rise in output over the coming twelve months, citing favourable economic conditions, efforts to increase promotional activities, expansions into new markets and good customer service. In contrast, just 0.1% of respondents anticipate a decline in output in the next year. Postage & Telecommunications firms were the most positive, followed by Transport & Storage companies.

Notes on the Data and Method of Presentation

The India Services PMI covers transport & storage, financial intermediation, postage & telecommunications, renting & business activities, hotels & restaurants and 'other services'.

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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