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HSBC India Services PMI

Activity growth slowed in May, but remained sharp. Price pressures eased slightly.

Key findings:

- New business continued to rise substantially, albeit to a lesser extent than in April.
- Job creation remained solid.
- Input prices increased at weaker, but still considerable, rate.

Activity growth across the Indian services economy cooled in May, as shown by a fall in the headline seasonally adjusted HSBC Business Activity Index from a twenty-one month high of 62.1 in April to 58.2. Nevertheless, the latest reading remained at a level consistent with a sharp expansion of output. Sector data revealed that activity growth was broad-based across all six sub-sectors monitored by the survey, with the fastest rise recorded by Post & Telecommunications.

Supporting May's increase in service sector activity was another considerable expansion of new business. Incoming new work has risen during every month since May last year, although the latest growth was slightly weaker than in April. Anecdotal evidence suggested that a good economic environment, successful promotional activities and strong company reputations were the key reasons for higher market demand. Transport & Storage posted the sharpest gains in new work, followed by Renting & Business Activities.

Larger workloads led to another accumulation of backlogs across India's services industry in May. Volumes of outstanding business grew at a moderate rate that was little-changed from that recorded one month earlier. Several respondents also mentioned delays caused by customers. The greatest build-ups were recorded in the Post & Telecommunications and Renting & Business Activities sub-sectors. Meanwhile, work-in-hand

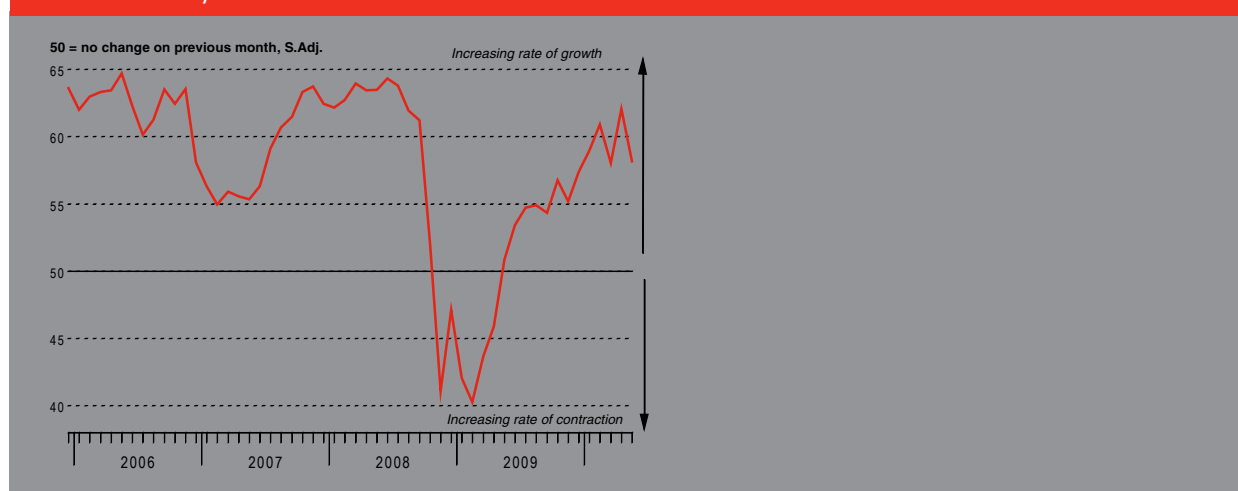
was broadly unchanged from April in Financial Intermediation.

To support greater business requirements, Indian service companies expanded their productive capacity in May. Employment levels increased at the same rate as the twenty-month peak recorded at the start of Q2. The rate of growth was robust and only fractionally weaker than the pre-downturn trend. Data showed that job creation was fastest in Post & Telecommunications.

With demand for services rising and economic conditions improving, optimism regarding future activity was recorded across all six sub-sectors in May. Of these, Hotels & Restaurants was the most optimistic, and 'Other Services' the least. Consequently, positive sentiment remained strong overall, despite falling to its lowest level for four months. Planned advertising campaigns and good company reputations were also given as reasons for confidence.

Indian service firms raised their charges at a solid pace during the latest survey period. This was partly to generate larger returns amid favourable business conditions, but also to defend profit margins from rising costs. Input price inflation was sharp in May, driven by further hikes in raw material prices and salaries. However, both price measures eased from their twenty-month highs in April.

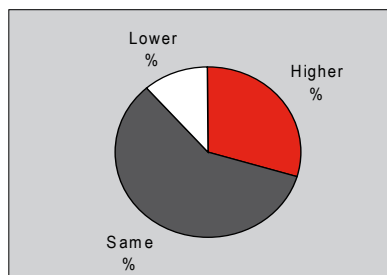
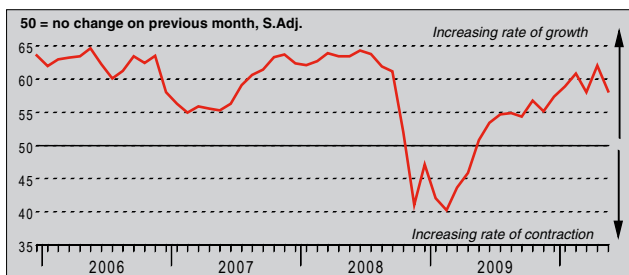
Business Activity Index



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

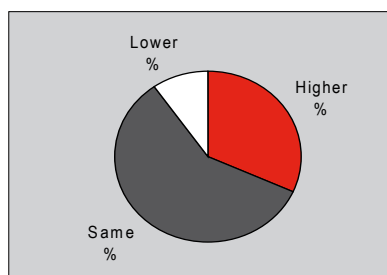
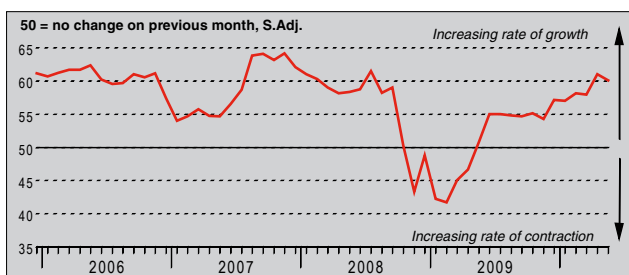
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



After accelerating to a twenty-one month high at the start of Q2, Indian service sector activity growth slowed during May. Even so, the rate of increase remained substantial and in line with the series' long-run trend, with 30% of the survey panel registering higher output. Reports indicated that activity levels were raised in response to further gains in new work. Post & Telecommunication recorded the most pronounced expansion of activity, while Renting & Business Activities registered the weakest growth (albeit still marked).

New Business Index

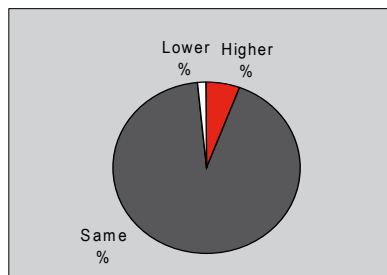
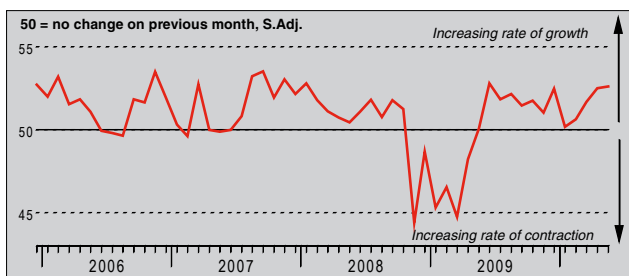
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Improving market conditions, alongside advertising campaigns and good company reputations, supported demand for Indian services in May, according to anecdotal evidence. New business receipts rose sharply, albeit to a lesser degree than during the previous month. Approximately 32% of respondents stated that new work had increased, against less than one-tenth that posted a decline. Incoming new business to the sector has now expanded continually for over a year.

Outstanding Business Index

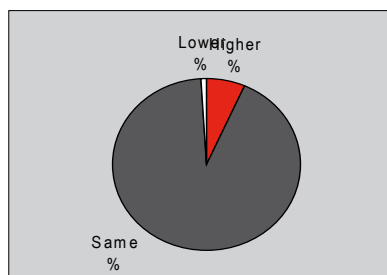
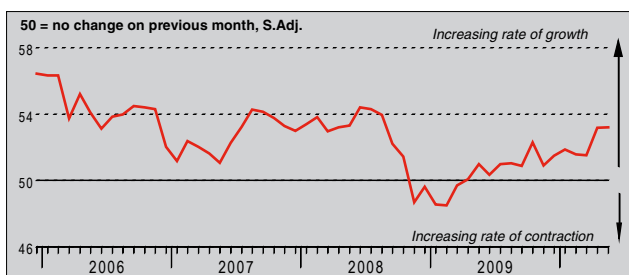
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at Indian service providers accumulated at a similarly-moderate pace to that recorded in the previous month during May. Panel members cited higher workloads and client delays as the predominant reasons for the latest build-up, which was the thirteenth in succession. The most noticeable rise in unfinished work was recorded by Post & Telecommunications, while volumes were largely unchanged in Financial Intermediation.

Employment Index

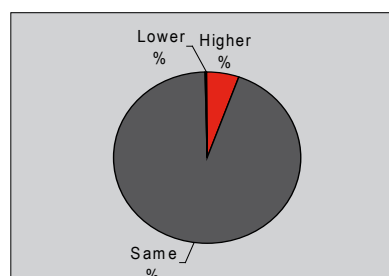
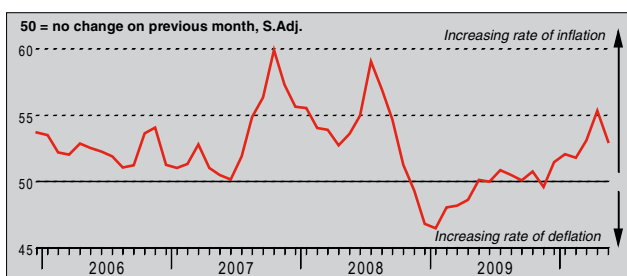
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index was unmoved in May from the twenty-month high posted in April. The latest figure signalled another solid expansion of personnel numbers at Indian service providers. Survey participants cited greater workloads and the need to expand capacity as the main reasons behind decisions to hire additional staff. Firms in the Post & Telecommunications industry took on new employees at the fastest pace, followed by those in the Hotels & Restaurants sub-sector.

Prices Charged Index

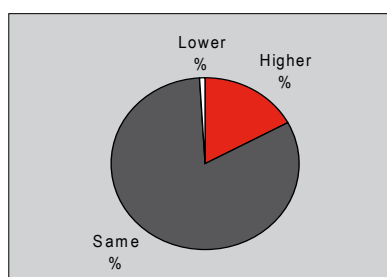
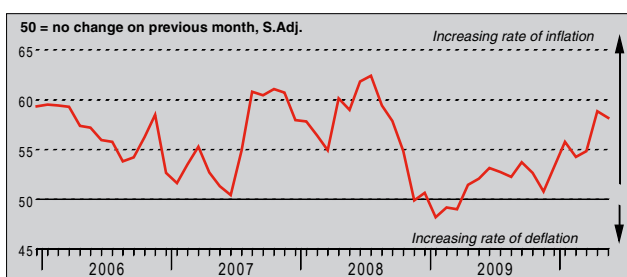
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service firms raised their charges again in May, marking six months of continuous output price inflation in the sector. The increase was solid and faster than the series trend, reflecting both the need to defend profit margins from rising costs and opportunistic policies to take advantage of favourable business conditions. However, inflation moderated from April's twenty-month peak, with weaker rises recorded across three of the six monitored sub-sectors (Postage & Telecommunications, Renting & Business Activities and Transport & Storage).

Input Prices Index

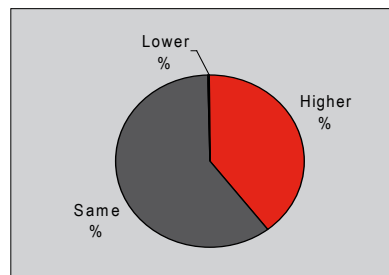
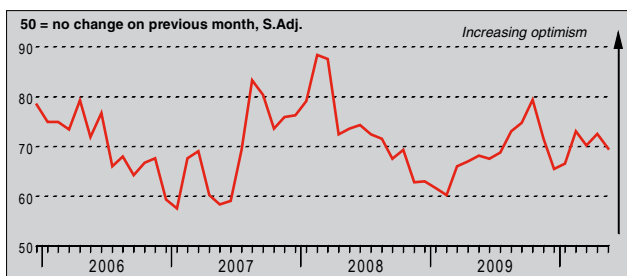
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation across India's services economy was substantial in May, having slowed only fractionally from the twenty-month peak recorded in April. Respondents indicated that higher fuel and raw material prices, alongside increased salaries, drove the latest rise in input costs. Companies have noted growth in their average cost burdens during every survey period since April 2009. By sector, Post & Telecommunications and Hotels & Restaurants registered the fastest rates of cost 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?



Economic growth, marketing initiatives and strong business reputations all supported confidence levels amongst Indian service providers in May. Two-fifths of respondents anticipate activity growth in the next year, compared with just 0.2% that expect a decline. However, positive sentiment was less widespread than over the previous three months as a greater share of firms reported no change. Hotels & Restaurants and Post & Telecommunications firms were the most optimistic during the latest survey period.

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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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