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## HSBC India Services PMI

Activity growth hit two-year high in June, leading to further job creation.

### Key findings:

- Output and new business rose considerably.
- Employment continued to expand at solid pace.
- Input price inflation slowed, while charges increased at slightly accelerated pace.

India's services economy ended the second quarter on a high, with output, new business and employment growth all accelerating in June. Moreover, while firms' pricing power continued to improve, input price pressures moderated to the weakest for three months. Averaged over Q2, the sector's output and employment performances were the best since 2008 Q3. In terms of new work, Q2 was the strongest quarter since 2007 Q4.

After dipping slightly in May to 58.2, the headline seasonally adjusted HSBC Business Activity Index regained some ground in June, reaching a two-year high of 64.0. The latest reading pointed to a substantial rate of expansion. Over 43% of monitored companies raised activity on the month, primarily responding to further growth of new work.

Incoming new business to India's service sector increased at a sharp and accelerated pace during the latest survey period. Respondents linked higher receipts of new work to a good economic climate and strong reputations for quality. Growth has now been recorded for fourteen straight months, the latest round of which was the sharpest since November 2007. All six sub-sectors covered by the survey recorded a rise in new business since May, with Post & Telecommunications registering the fastest expansion.

June's sharp rise in activity levels was not sufficient to prevent a build-up of unfinished work at Indian service companies. In fact, backlogs accumulated at the fastest rate since September

2007. By sector, Transport & Storage registered the most pronounced increase in work-in-hand.

In response to further growth of new business, Indian service firms hired extra staff at the end of Q2, extending the current run of expansion to fifteen months. Employment rose solidly and at the fastest rate since August 2008 as a result. Job creation was strongest in Post & Telecommunications, while Financial Intermediation recorded a marginal contraction in staffing.

Better business conditions were reflected by firms' confidence levels in June, which rose to its highest level since October 2009. Over half of monitored service providers foresee a rise in output over the next year, citing expectations of an improving economic environment, planned marketing activities and strong business reputations. Sector data showed that Hotels & Restaurants was the most optimistic.

Input price inflation slowed further from April's twenty-month high in June. Nonetheless, the latest increase was marked, driven by both raw material price and wage rises. The sharpest inflation was recorded by Hotels & Restaurants, while input costs were unchanged overall in Post & Telecommunications.

Partly to compensate for rising input prices, but also to boost profit margins as market demand strengthened, Indian service companies raised their charges in June. Moreover, the rate of increase accelerated fractionally since May. However, output price inflation remained below that of input costs.

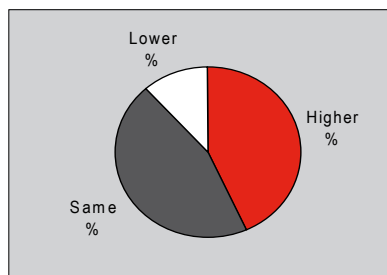
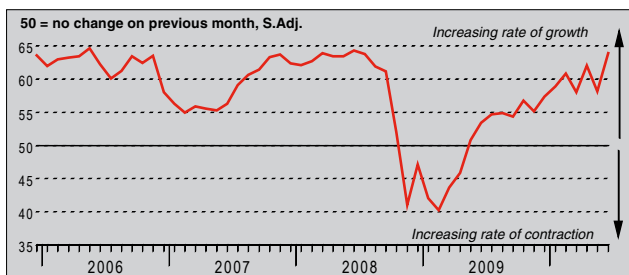
### Business Activity Index



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

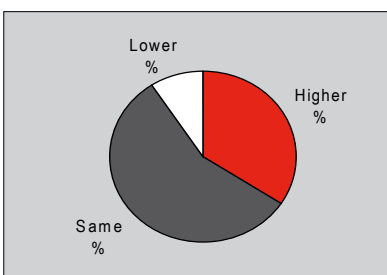
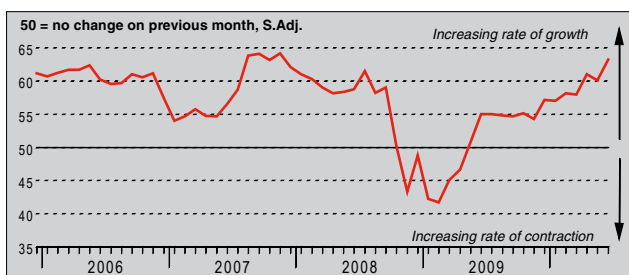
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Indian service sector output rose at a sharp and accelerated pace at the end of the second quarter, with over 43% of the survey panel recording growth. Highlighting this, the seasonally adjusted Business Activity Index climbed almost 6 points to its most elevated level for two years. Respondents indicated that output was raised in response to a faster inflow of new business. 'Other Services' and Transport & Storage posted the most pronounced increase in activity since May.

### New Business Index

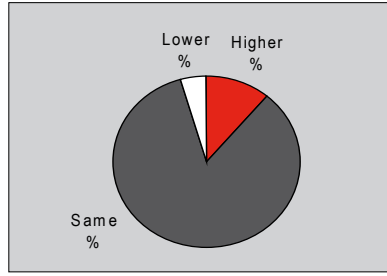
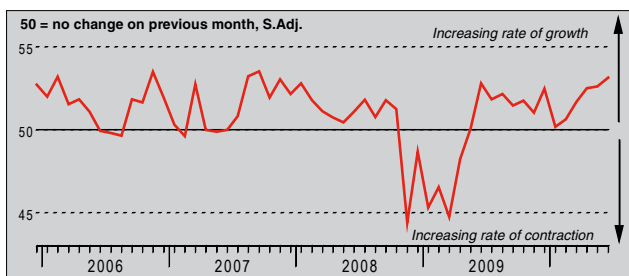
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Volumes of new work received by Indian service companies rose again in June, extending the current sequence of growth to fourteen months. Moreover, the rate of expansion accelerated to a sharp pace that was the most marked since November 2007. Panel members indicated that favourable market conditions and good company reputations had supported demand. All six of the sub-sectors monitored by the survey registered an increase in new business since May, with Post & Telecommunications posting the fastest growth.

### Outstanding Business Index

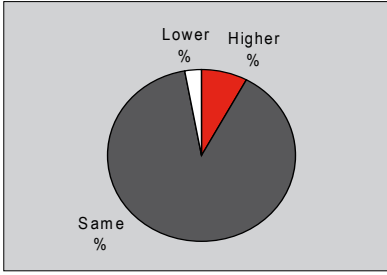
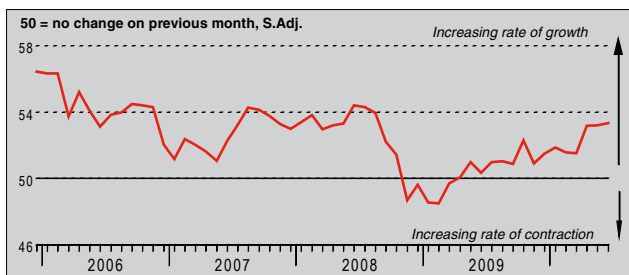
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at Indian service firms grew at an accelerated pace during June. Data pointed to a solid rate of increase that was the sharpest since September 2007, with over 11% of panel members recording a build-up in backlogs. Anecdotal evidence suggested that greater volumes of new business led to the latest accumulation of work-in-hand. Sector data revealed that backlogs rose fastest in Transport & Storage, but fell in both Post & Telecommunications and Hotels & Restaurants.

### Employment Index

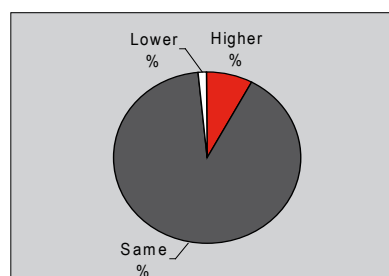
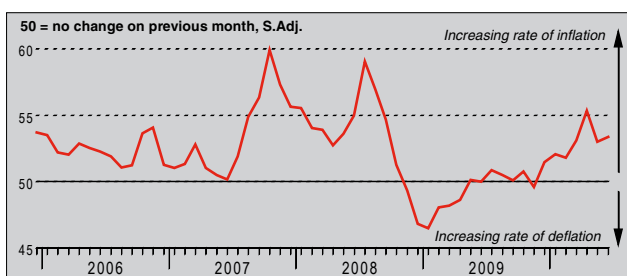
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index continued to trend broadly sideways in June, signalling another solid rise in staffing numbers at Indian service providers. Although only fractionally higher than in April and May, the latest reading was the most elevated since August 2008. Firms cited greater business requirements as the key factor behind decisions to hire new workers. Job creation was most pronounced in Post & Telecommunications, while personnel levels fell marginally in Financial Intermediation.

## Prices Charged Index

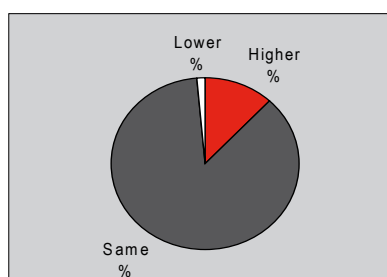
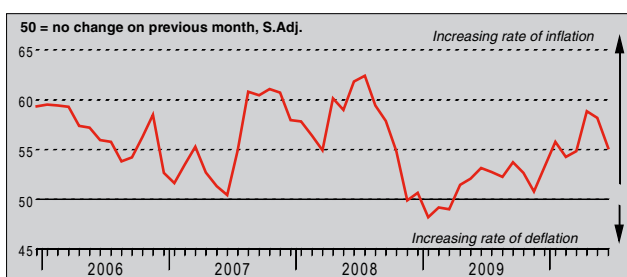
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service companies raised their charges for the seventh month running in June. Although still weaker than April's twenty-month peak, the latest round of output price inflation was nonetheless solid and above the long-term series trend. Firms stated that tariffs were increased partly in order to compensate for rising input costs, but also to improve profit margins as market conditions improved. All of the six sub-sectors covered by the survey recorded higher charges on the month, with Hotels & Restaurants posting the sharpest inflation.

## Input Prices Index

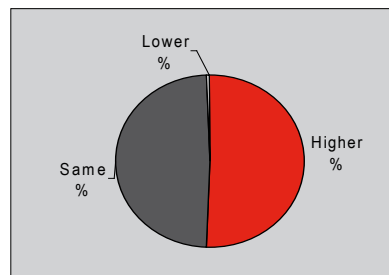
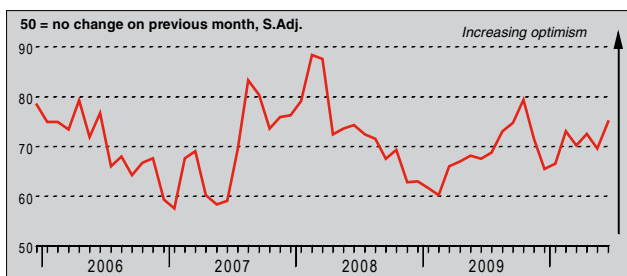
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



After accounting for seasonal variation, the Input Prices Index slipped to a three-month low in June, signalling an easing of price pressures. Nevertheless, inflation remained marked and above the average for the current fifteen-month sequence. Reports indicated that higher wages and raw material costs supported the latest rise in input prices. By sector, input price inflation was sharpest in Hotels & Restaurants, followed by Renting & Business Activities. Input costs were unchanged overall in Post & Telecommunications.

## 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 providers was at its highest since October last year in June. Over half of the survey panel anticipate a rise in activity over the coming twelve months, against less than 1% that foresee a contraction. According to panellists, optimism was based on expectations of improving economic conditions, planned promotional efforts, and good company reputations. The Hotels & Restaurants sub-sector was the most confident 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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