HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC India Services PMI™

Activity growth eased from June's two-year high, but remained sharp.

Key findings:

- Output and new work rose considerably.
- Job creation slowed to moderate pace.
- Input prices rose at accelerated rate, while charge inflation eased slightly.

July data signalled a solid start to 2010's third quarter for India's services economy. Activity, new business and employment all continued to grow, albeit at weaker rates than at the end of Q2. However, input price pressures picked up after easing in June.

The headline seasonally adjusted HSBC Business Activity Index slipped to 61.7 in July from June's two-year peak of 64.0. Nevertheless, the latest reading pointed to a substantial expansion of Indian service sector output. Respondents indicated that activity levels were raised to accommodate further gains in new business. By sector, Postage & Telecommunications and Hotels & Restaurants registered the most pronounced increases in activity on the month.

After accelerating to a thirty-one month peak at the end of the second quarter, new business growth slowed to a four-month low in July. Nevertheless, the latest increase was sharp, with one-quarter of panel members registering an expansion in new work. Anecdotal evidence suggested that a more favourable economic environment, strong reputations for quality and successful promotional activities all supported demand for services. Of the six sub-sectors monitored by the survey, growth was fastest in Transport & Storage and Postage & Telecommunications.

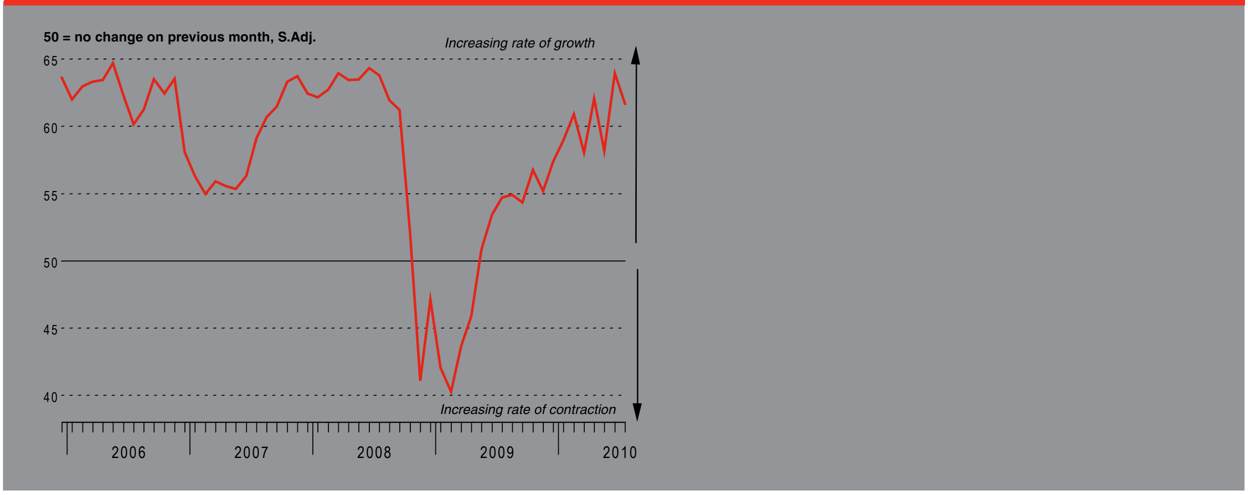
Indian service providers noted a modest build-up of unfinished business during the latest survey period, which they largely attributed to a combination of heavier workloads and customer delays. The latest accumulation was the mildest since February.

Personnel numbers at Indian service providers continued to rise in July, extending the current sequence of growth to sixteen months. Firms indicated that additional workers were needed in order to cope with greater market demand. However, the rate of increase eased to a moderate pace that was the weakest since March. With the exception of Financial Intermediation, where staffing was broadly unchanged, all services categories covered by the survey posted higher employment.

Confidence regarding future activity levels dipped to a six-month low in July, reflecting slower expansions in output and new business. Nonetheless, 36% of panellists are forecasting a rise in activity over the next year. According to respondents, optimism was supported by expectations of both economic growth and improving demand, as well as good business reputations. Plans for company expansions and investment, alongside intentions to expand marketing efforts were also reported.

Input price inflation accelerated to a sharp rate in July, after slowing in June. Consequently, Indian service companies continued to raise their charges at a solid pace. Reports indicated that greater wage, fuel and raw material costs drove increases in both variables. Survey participants made specific reference to higher prices for petrol, diesel, stationary, vegetables, medicines, cement and paper as sources of cost inflation.

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.

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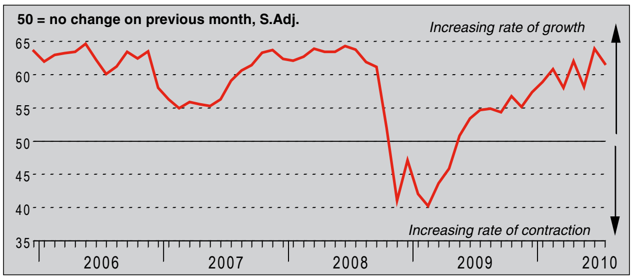
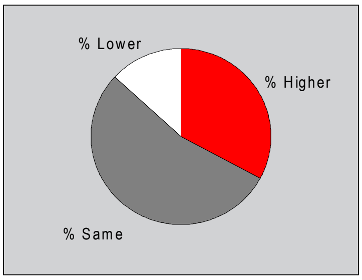
Business Activity Index

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.

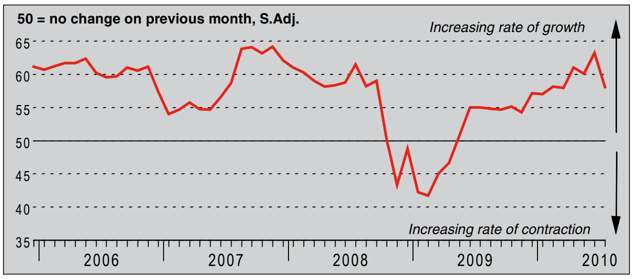


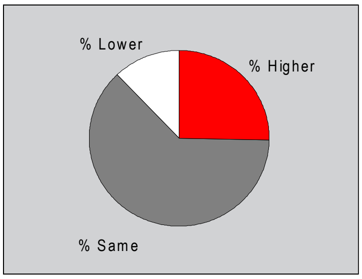


Indian service providers raised activity levels in July for the fifteenth month in succession. With just under one-third of respondents recording an expansion in output, growth was sharp but less marked than June's two-year peak. Anecdotal evidence suggested that activity increased as a result of further gains in new business. Data showed that all six services sub-sectors monitored by the survey registered higher output, led by Postage & Telecommunications and Hotels & Restaurants.

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.

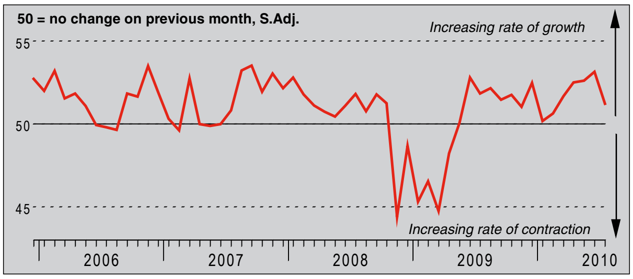


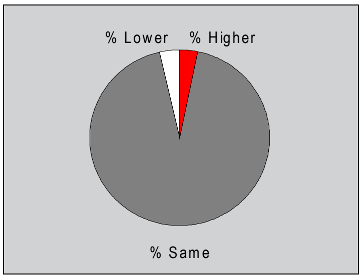


After accounting for seasonal variation, the New Business Index fell from a thirty-one month high in June to a four-month low in July. Even so, the latest reading remained at a level indicative of a considerable inflow of new work to the Indian services industry. One-quarter of panel members saw new business rise on the month, citing improving economic conditions, strong market demand, good company reputations and successful advertising campaigns. By sector, Transport & Storage posted the fastest growth of new work, followed by Postage & Telecommunications.

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.

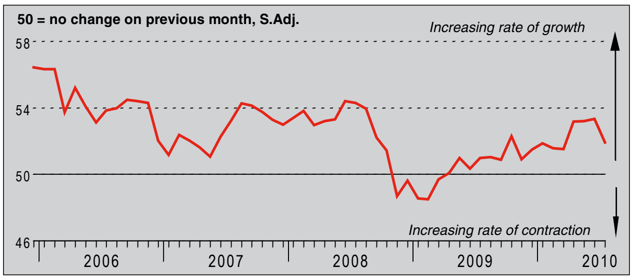


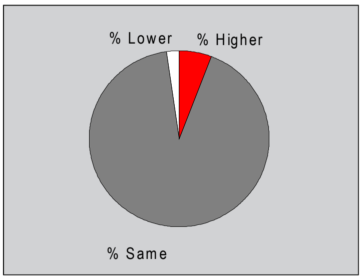


Extending the current sequence of growth to fifteen months, outstanding business at Indian service companies continued to accumulate during July. The main reasons for the build-up, according to panellists, were greater workloads and customer delays. However, the latest rise in backlogs was only modest and the weakest since February. Three sub-sectors posted an increase in unfinished business at the start of Q3, with the most pronounced growth recorded by Transport & Storage.

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).

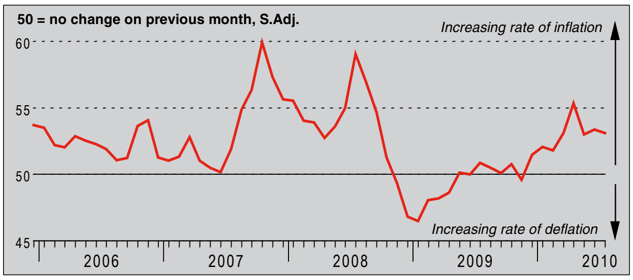


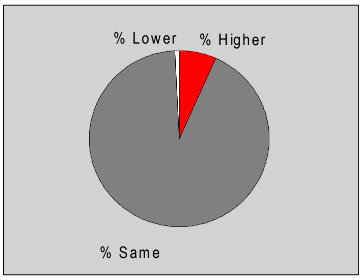


Employment growth at Indian service providers continued into the third quarter. However, the rate of expansion slowed in July to only a modest pace. The vast majority of panellists (approximately 92%) maintained their workforces since June. In the 6% of cases where new personnel were hired, firms commented on greater business requirements. All-but-one of the sub-sectors covered by the survey took on additional employees; staffing was largely unchanged 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.

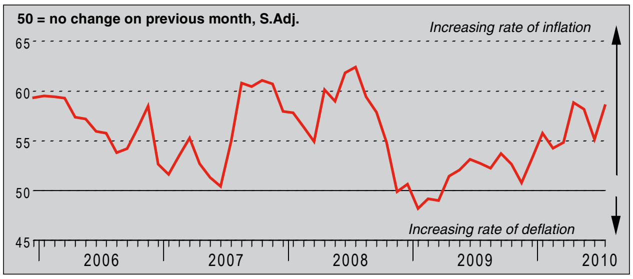


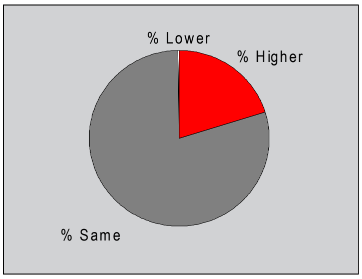


The seasonally adjusted Prices Charged Index continued to move broadly sideways in July, registering a similar level to those recorded in May and June. Consequently, the latest reading pointed to another solid increase in rates charged for Indian services. Companies monitored by the survey stated that tariffs were raised in order to compensate for higher input costs. Output price inflation was recorded in all monitored services areas, with the sharpest rate in Hotels & Restaurants.

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.

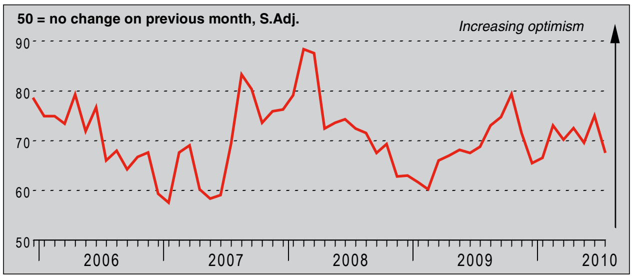


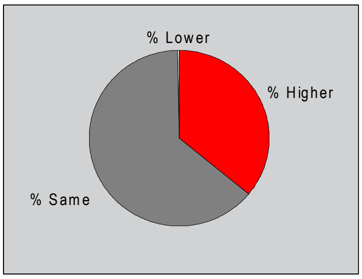


Latest data pointed to a pick-up in input price inflation across the Indian services economy during July. Input costs rose at a substantial pace that was the sharpest for three months. One-fifth of the survey panel saw an increase since June, against just 0.2% that recorded a decline. Reports indicated that greater wage, fuel and raw material costs drove July's inflation. Firms made particular reference to higher prices for petrol, diesel, stationary, vegetables, medicines, cement and paper.

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?





With regard to activity levels over the coming twelve months, Indian service providers remained optimistic in July. Exactly 36% of firms foresee a rise in output, holding expectations of further economic growth and improving market demand. Strong business reputations, planned promotional initiatives and company investments and expansions were also mentioned by respondents. However, confidence was less prevalent in the sector than over the previous five survey periods, as shown by a marked fall in the Business Expectations Index.

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.

Warning