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HSBC India Services PMI™

Indian service sector continued to grow strongly in August.

Key findings:

- Expansion in new business picked up, although output growth slowed.
- Employment rose to accommodate higher levels of activity.
- Rising purchase and wage costs drove input price inflation.

August survey data, compiled by Markit for HSBC, indicated a marked rise in business activity within the Indian service sector. The rate of growth slowed modestly since July, but remained strong in the context of historical data. The latest expansion in output was supported by a further rise in incoming new business. Employment also increased during the month. Meanwhile, inflationary pressures continued to persist, albeit slightly moderated since July.

The headline seasonally adjusted HSBC Business Activity Index posted 59.3 in August, falling from 61.7 in July. This was the second successive decrease in the headline figure, however it continued to signal sharp growth of the Indian service sector that was above the long-run average for the series. On a sector basis, the strongest expansions were recorded in Other Services and Postage & Telecommunications.

Incoming new business received by service firms in India increased markedly during August, boosted by the ongoing improvement in global economic conditions. Moreover, the latest growth was faster than that posted in July. All six sectors monitored indicated that new business had risen during the month, although this was most marked in Postage & Telecommunications. Overall new orders have now increased in each of the last sixteen months.

Despite the sharp rise in output recorded during the

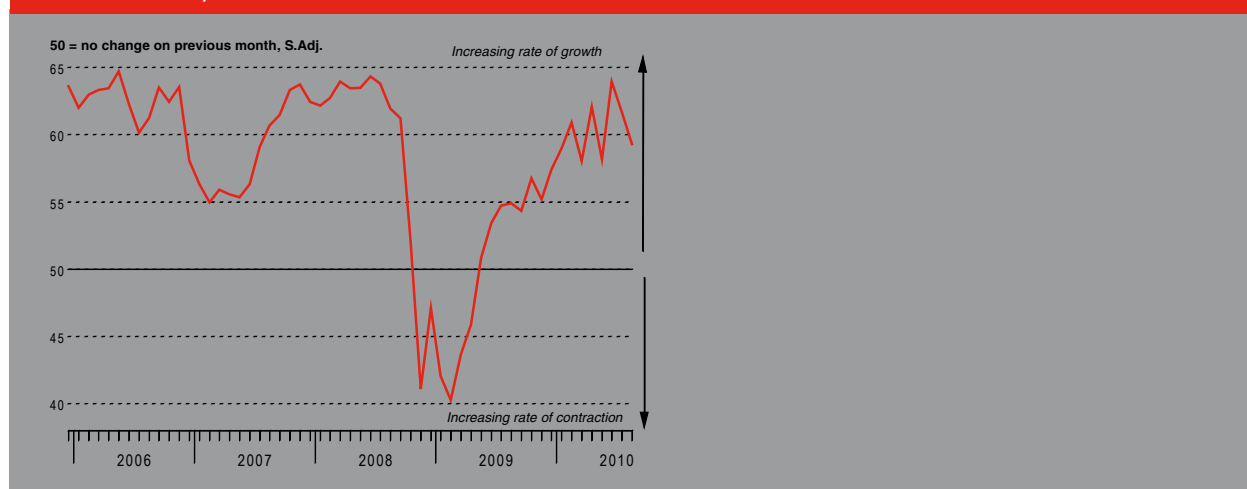
month, backlogs of work at service sector companies in India increased again during August. This signalled that pressures on production capacity continued. However, the accumulation of outstanding business was only marginal, with the majority of panellists reporting that backlogs were unchanged since July. Three of the six monitored sub-sectors indicated an increase in outstanding business – Other Services, Renting & Business Services and Transport & Storage.

Reflective of sustained growth in new business and activity, employment in the Indian service sector increased during August. This was the seventeenth successive month where staffing levels have risen.

August data signalled a marked increase in input costs faced by Indian service companies. The latest rise in input prices was driven by higher purchase and wage costs. Whilst August's increase in costs was marginally lower than in July, it remained strong in the context of historical data. Input cost inflation has now been sustained since April 2009. Subsequently, output prices also increased during the month. Rates of charge inflation have been broadly consistent over the last four months.

Indian service sector companies remained optimistic over future business expectations in August. Many panellists indicated that they forecast activity to rise over the next year, supported by general improvements in market conditions.

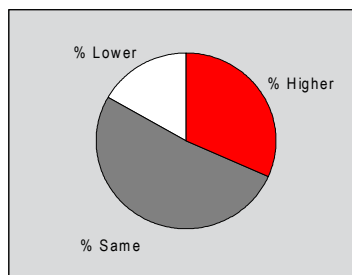
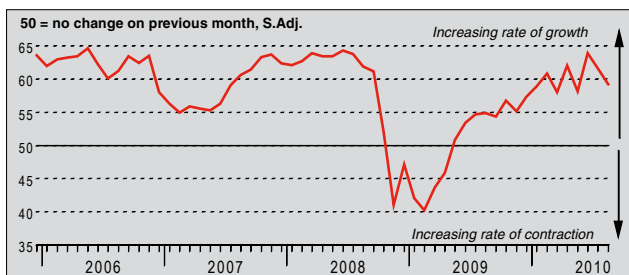
Business Activity Index



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

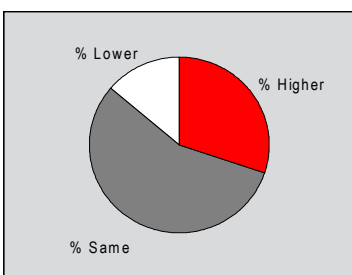
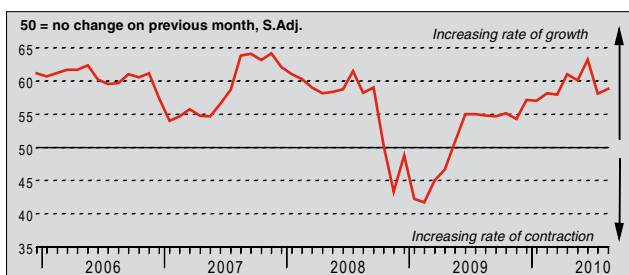
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service companies in India reported a marked rise in business activity during August, extending the sequence of sustained expansion to sixteen months. The rate at which output grew slowed for a second successive month from the recent high posted in June, but remained strong in the context of the series history. Panellists indicating an increase in activity attributed this to a further rise in incoming new business received. Of the six sectors monitored, Other Services and Postage & Telecommunications recorded the sharpest rises in activity.

New Business Index

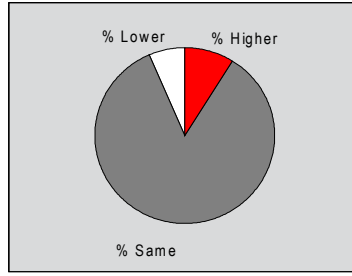
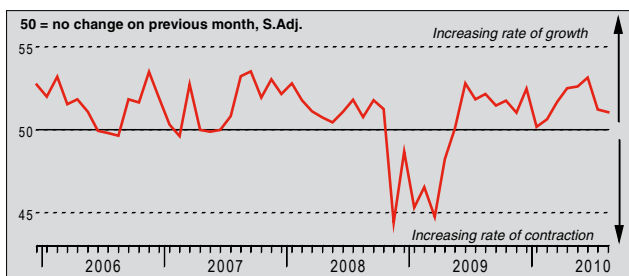
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



August data signalled a marked rise in incoming new business received by companies operating in the Indian service sector, with growth faster than that signalled in July. Approximately 30% of panellists reported a rise in new work intakes compared to the previous month. Those firms commented that this reflected an overall improvement in general economic conditions, alongside the high quality of services offered. On a sector basis, Postage & Telecommunications showed the sharpest expansion. Overall new business levels have now increased continuously since May 2009.

Outstanding Business Index

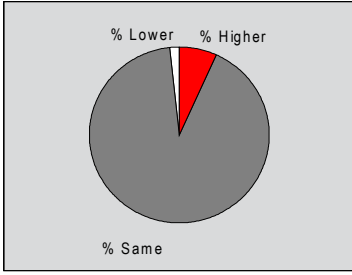
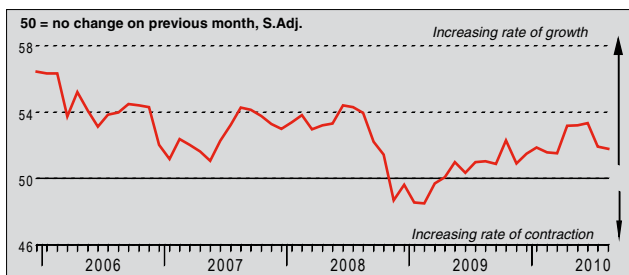
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Service sector companies in India reported a sixteenth successive rise in backlogs of work during August, suggesting that pressures on operating capacity continued. Despite the sharper increase in incoming new business, the latest rise in backlogs was marginal. Moreover, it was broadly unchanged since July and roughly in line with the long-run average for the series. The majority of panellists (approximately 85%) indicated that levels of outstanding business remained unchanged since July.

Employment Index

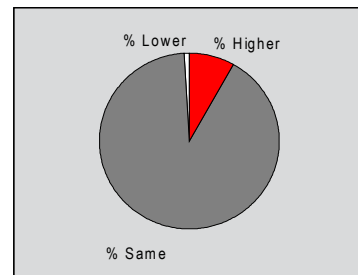
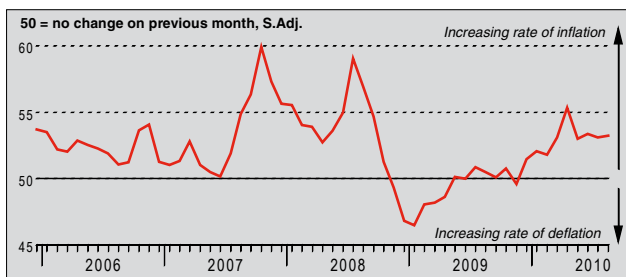
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment within the Indian service sector was reported to have risen modestly during August. The latest increase in staffing levels, which was broadly in line with that recorded in July, was attributed to sustained growth in new business and activity. On a sector basis, job creation was strongest in the Other Services and Postage & Telecommunications sectors, with panellists in Hotels & Restaurants noting a slight fall in headcounts. Overall employment has now increased over each of the last seventeen months.

Prices Charged Index

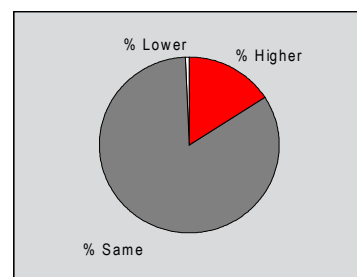
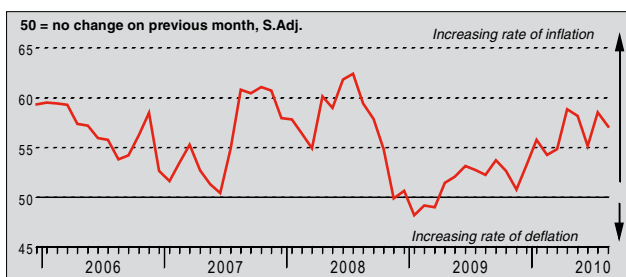
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service providers indicated a solid rise in charges during August, commenting that this was driven by a further increase in input costs. Charge inflation has been broadly steady over the last four months, having decelerated from the recent high recorded in April. Nonetheless, the latest increase remained strong in the context of historical data. The sharpest monthly rise in charges was reported in the Hotels & Restaurants sector. Overall output price inflation has been recorded for nine consecutive months.

Input Prices Index

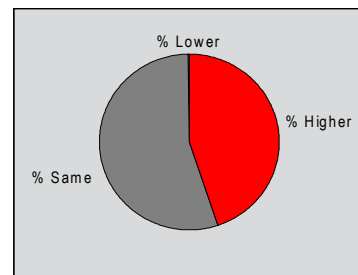
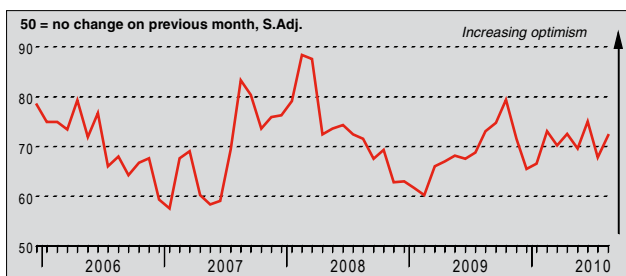
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



August data signalled a marked rise in input prices faced by service companies in India. Input cost inflation has been sustained since April 2009, and whilst the latest increase in costs was lower than that recorded in July, it remained above the long-run series average. Anecdotal evidence suggested that higher purchase prices, particularly for fuel and electricity, drove the rise in average costs. Staff costs were also reported to have increased on the month. Of the six sectors monitored, Hotels & Restaurants and Transport & Storage recorded the steepest increases in costs during August.

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?



Service sector companies in India remained optimistic over future business expectations in August. Moreover, the degree of positive sentiment increased since July. Approximately 45% of panellists noted that they expect activity levels to rise over the coming year, with this being driven by ongoing improvements in global economic conditions and increased marketing activity. Confidence was highest in the Postage & Telecommunications and Hotels & Restaurants sub-sectors.

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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