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## HSBC India Services PMI™

Indian service sector grew at weakest pace in ten months in September.

### Key findings:

- Expansions in new business and activity slowed markedly since August.
- Employment rose at slowest pace since April 2009.
- Both input and output price inflation weakened.

September survey data, compiled by Markit for HSBC, indicated marked growth of business activity in the Indian service sector. However, the rate of expansion slowed for a third successive month. A weaker increase in incoming new business drove the slower rise in activity, while employment increased only slightly during the month. Meanwhile, input prices increased again, albeit to a lesser extent than in August. Charges also rose, but strong competition for new business limited the extent of the increase.

The headline seasonally adjusted HSBC Business Activity Index posted 55.6 in September, signalling a marked rise in Indian service sector output. However, the index fell for a third successive month to the weakest since November 2009 and was below the long-run average for the series. On a sector basis, the strongest expansions were recorded in Postage & Telecommunications and Other Services.

Indian service companies reported a solid rise in new work during September. Latest data marked the seventeenth successive month where an increase in new business has been recorded, although the latest expansion was the second-weakest in that period. Anecdotal evidence suggested that market conditions were still improving, but to a lesser extent than in previous months. The slowdown in new business growth was a leading factor behind the weaker increase in activity.

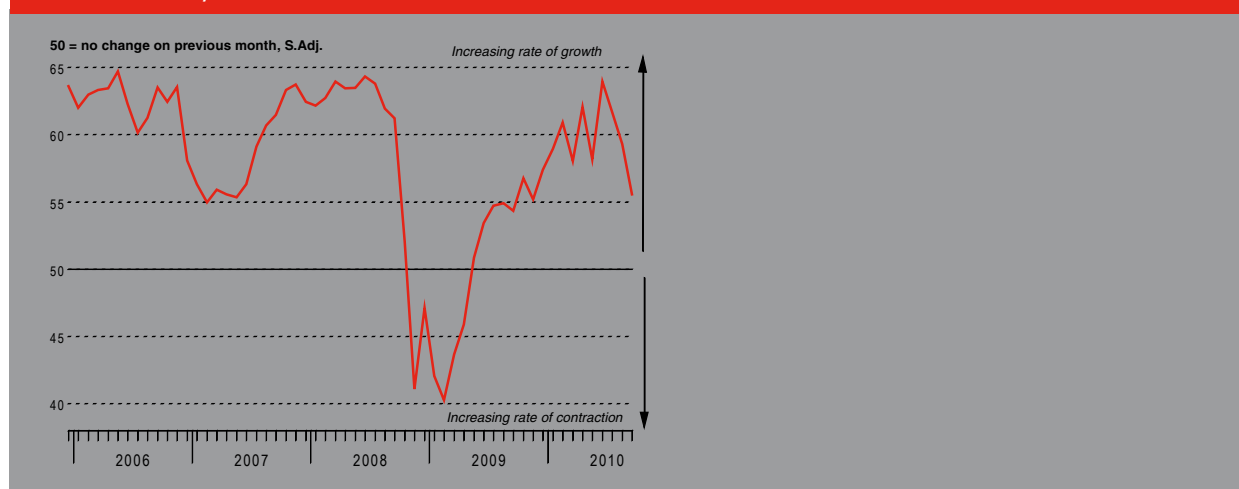
Backlogs of work were reported to have decreased fractionally during the month, ending a sixteen-month period of growth, as the weaker expansion in new business reduced pressure on capacity.

September data signalled a slight increase of employment in the Indian service sector. Where a rise in staffing levels was indicated, this was attributed to higher workloads. However, the latest increase in employment was the second-weakest in the current eighteen-month sequence of growth, reflective of slower rises in new business and activity.

Input prices faced by service companies in India increased markedly in September, predominately driven by higher staff costs. However, the rate of input cost inflation slowed since August and was the weakest in three months. Similarly, output prices also increased, but at the lowest rate in seven months. Panellists commented that strong competition for new business prevented a larger rise in charges.

Indian service companies remained optimistic over future business expectations in September. Many panellists indicated that they anticipate improved marketing initiatives and high quality services to boost new orders over the coming year. The degree of positive sentiment eased slightly since August, although was broadly in line with the long-run average for the series.

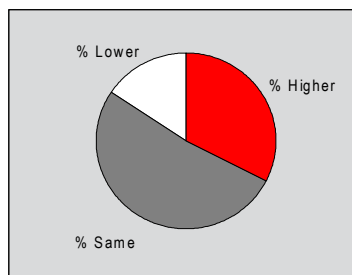
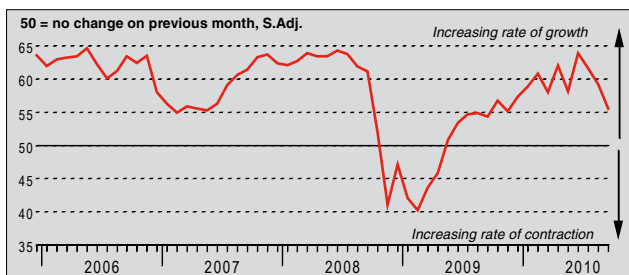
### Business Activity Index



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

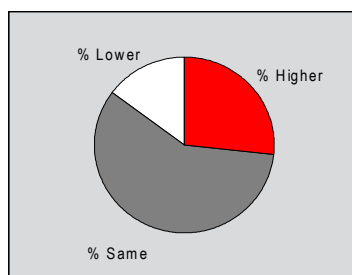
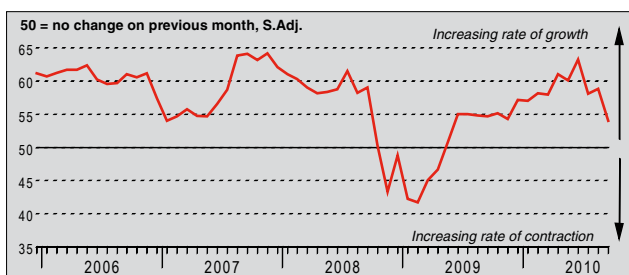
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Indian service companies reported a marked rise in activity during September, extending the sequence of sustained growth to seventeen months. However, the rate at which output expanded slowed for a third successive month from the two-year high recorded in June, and was the weakest in ten months. Panellists indicating an increase in activity attributed this to further growth in new orders. At the sub-sector basis, Post & Telecommunications recorded the strongest increase in activity during the month, Financial Intermediation the weakest.

### New Business Index

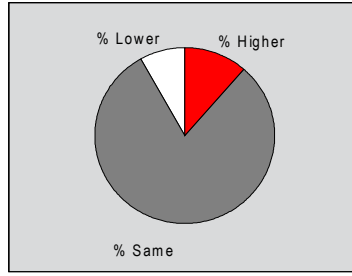
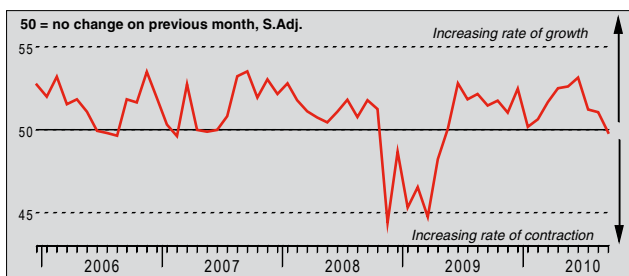
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



September data signalled a solid rise in incoming new business received by firms in the Indian service sector. However, the rate at which new work increased slowed markedly since August, and was below the long-run average for the series. Anecdotal evidence suggested that, whilst market conditions were still improving, they were to a lesser extent than in previous months. Nonetheless, incoming new business has now increased continuously since May 2009. Split by sub-sector, the data indicated that companies in the Post & Telecommunications industry recorded the largest rise in new business, whilst those engaged in Rent & Business Services saw the weakest growth.

### Outstanding Business Index

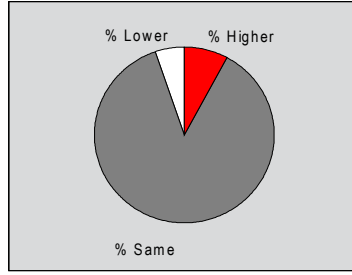
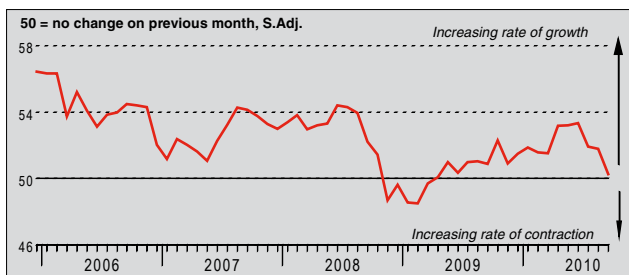
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted fractionally below the 50.0 no-change threshold in September, signalling a negligible reduction in backlogs of work. This ended a sixteen-month period of growth, and suggested that pressure on operating capacity had eased. Panellists commented on improved efficiency at their units. According to sub-sector data, companies in the Financial Intermediation and Transport & Storage categories indicated reductions in levels of outstanding business, with the remaining four sub-sectors reporting growth.

### Employment Index

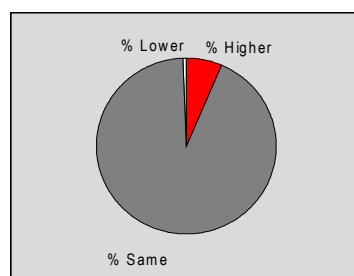
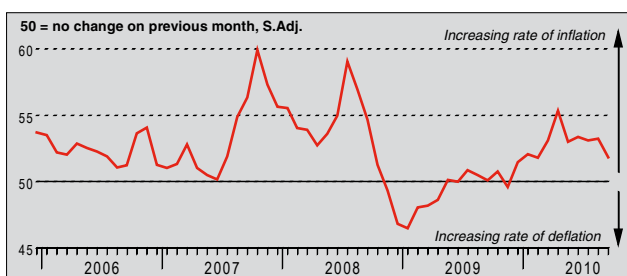
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



September data signalled a slight rise in employment within the Indian service sector, extending the sequence of sustained growth to eighteen months. Panellists noting an increase in staffing levels attributed this to higher activity levels. However, the extent to which headcounts rose slowed for a third successive month to the weakest since April 2009, with the majority of panellists (approximately 87%) indicating that employment was unchanged since August. All six sub-sectors reported a rise in staffing levels during the month, with the strongest growth amongst companies operating in Post & Telecommunications.

## Prices Charged Index

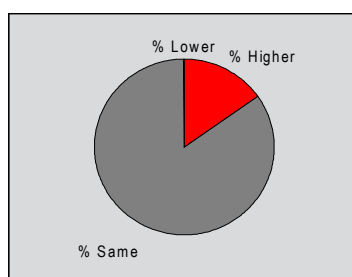
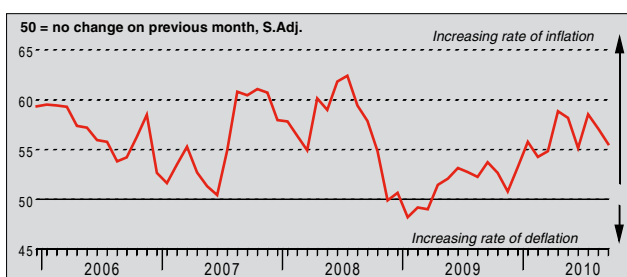
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service companies reported a modest rise in output prices during September. Anecdotal evidence suggested that the latest increase in charges was predominately driven by further inflation of input costs. However, output price inflation slowed since August to the weakest in seven months, with many panellists commenting that strong competition limited the extent to which charges were increased. Overall, rising output prices have now been recorded for ten successive months. The Hotels & Restaurants sub-sector registered the highest rise in charges during the month.

## Input Prices Index

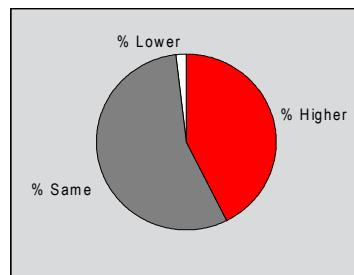
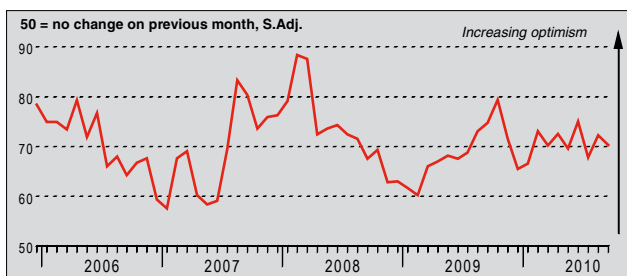
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



September data signalled a marked rise in input prices faced by companies in the Indian service sector, extending the sequence of sustained input cost inflation to eighteen months. Approximately 15% of panellists reported a rise in costs during the month, attributing the latest inflation predominately to higher staff costs. However, input cost inflation slowed for a second successive month and was in line with the long-run average for the series. On a sub-sector level, Hotels & Restaurants and Transport & Storage recorded the greatest rises in input costs during the month.

## 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 upbeat regarding future business activity in September. Approximately 43% of panellists indicated that they anticipate activity levels to increase over the coming year, compared to less than 2% projecting a contraction. Good customer service and strengthened marketing initiatives were cited as contributors to a rise in projected new business volumes, and therefore activity. The degree of positive sentiment indicated fell slightly since August, although was broadly in line with the long-run average for the series. Panellists in the Post & Telecommunications sub-sector were the most optimistic.

## 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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