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HSBC India Services PMI™

Growth of Indian service sector gained momentum in October, but remained below 2010 trend.

Key findings:

- Growth of new work slowed again.
- Job creation continued, despite signs of excess capacity.
- Charges fell for the first time in eleven months.

October survey data, compiled by Markit for HSBC, signalled a marked rise in activity in the Indian service sector. Growth was faster than in the previous survey period, although it remained weak in the context of the trend seen during 2010 to date. The sharper rise in activity occurred despite a slightly slower increase in new work received, and led to a greater reduction in outstanding business during the month. Nonetheless, employment continued to rise, as companies aimed to boost capacity. Input prices rose again, but at the slowest pace in ten months. Meanwhile, charges fell slightly.

The headline seasonally adjusted HSBC Business Activity Index posted 56.2 in October, pointing to a marked rise in activity within the Indian service sector. Moreover, the index rose from the previous month's reading of 55.6, as firms were buoyed by a further increase in new work and a general improvement in economic conditions. Of the six sub-sectors monitored, the strongest expansion was indicated in Post & Telecommunications.

October data signalled a solid rise in new work at service firms in India. However, the rate of new business growth slowed for the second month running to the weakest since May 2009.

Outstanding business at companies in the Indian service sector was reported to have fallen during October, with the rate of decline faster than in September. While

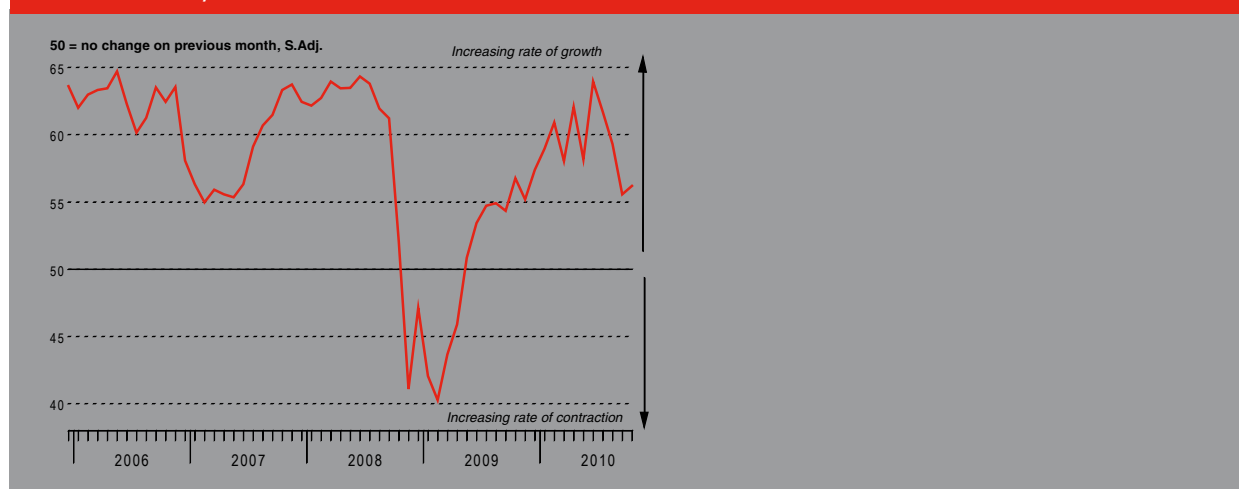
panellists indicated that this was partly due to efficient work practices at their organisations, it also suggested that new work inflows were not sufficient to replace completed projects.

Employment in the Indian service sector rose for the nineteenth successive month in October. Companies commented that they were aiming to increase capacity amid a sustained rise in workloads.

Inflationary pressures eased during October, with both the Input Prices Index and the Prices Charged Index down on the previous month. Nonetheless, a solid overall rise in input costs was indicated, with panellists largely attributing this to higher wage bills. The prices of some foods and medical products were also noted to have increased. However, companies were not able to pass higher costs on to customers, as charges fell for the first time since November 2009.

Indian service sector companies remained optimistic regarding future business expectations in October. Anecdotal evidence suggested that panellists believe that a general improvement in market conditions, alongside more advertising campaigns, good quality work and expanded operations, will help to boost activity over the coming year. However, the degree of positive sentiment eased slightly during the month, and was below the long-run series average.

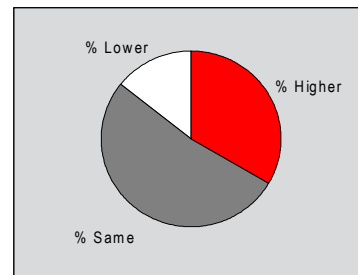
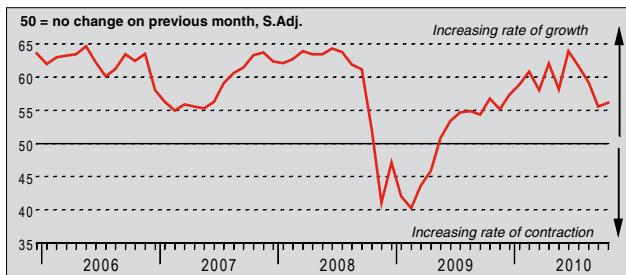
Business Activity Index



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

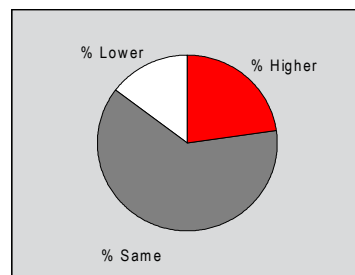
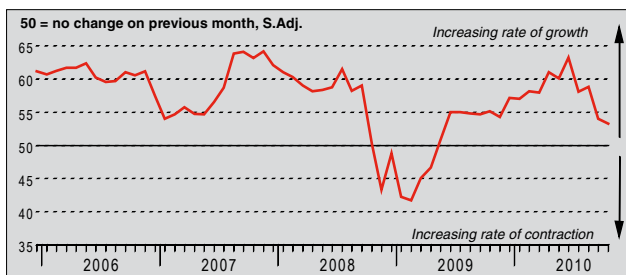
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service sector firms in India reported a marked rise in business activity during October. Moreover, the rate of growth was stronger than that indicated in September. Approximately one-third of panellists noted that activity had increased during the month, commenting that this reflected a rise in incoming new business and a general improvement in economic conditions. Overall, business activity has increased in each of the last eighteen months. All six sub-sectors monitored reported a rise in activity in October, with growth sharpest in Post & Telecommunications and 'Other Services'.

New Business Index

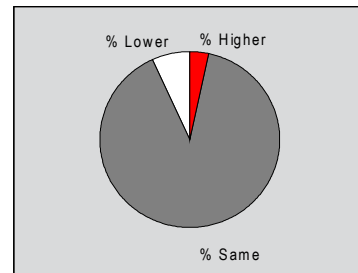
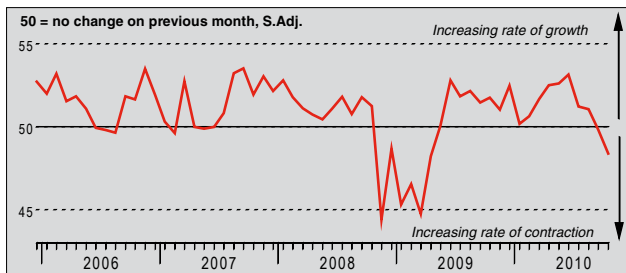
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



October data signalled a marked rise in new work intakes in the Indian service sector, with growth now recorded since May 2009. Panellists commented that the latest increase in new business reflected ongoing improvements in general economic conditions, with many companies also noting that the high quality of their services had also helped to attract new work. However, the extent to which new business rose slowed for the second successive month, and was below the long-run series average. At the detailed sector level, the strongest increase in new business was reported by companies operating in Post & Telecommunications, whilst Renting & Business Services firms recorded the weakest rise.

Outstanding Business Index

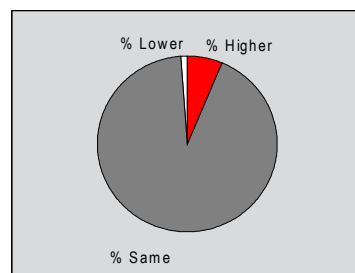
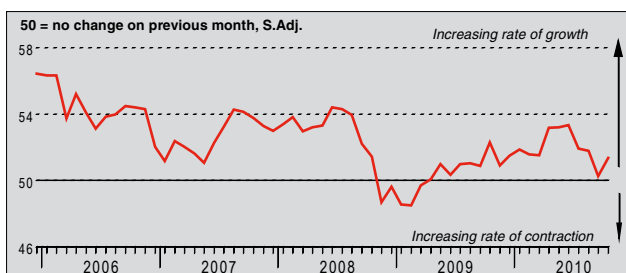
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at Indian service companies fell modestly during October. This was the second consecutive month where a reduction in work-in-progress was indicated, with the rate of decline stronger than in the previous survey period. Anecdotal evidence suggested that efficiency at firms had led to the completion of existing projects. However, in line with the modest nature of the reduction in outstanding business, the majority of panellists (approximately 90%) indicated that backlogs remained unchanged since September.

Employment Index

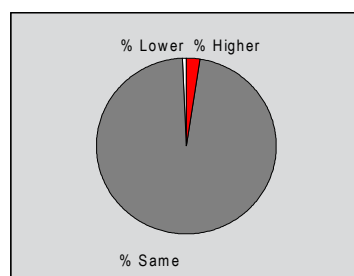
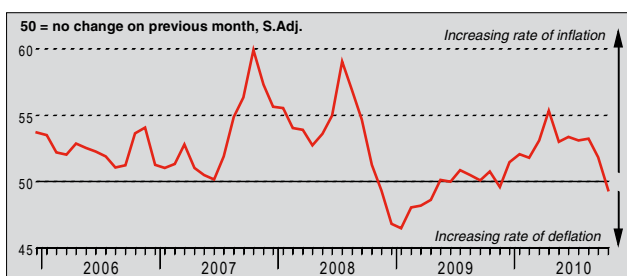
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Indian service sector increased modestly during October, with rising staffing levels now reported for nineteen straight months. The latest increase in headcounts was stronger than that indicated in September, but remained below the historical average for the series. Where a rise in employment was noted, this was attributed to sustained growth in new work intakes and business activity. However, the vast majority of panellists (approximately 93%) indicated that staffing levels were unchanged during the month. All but one of the six detailed sectors monitored noted a rise in employment in October (Hotels & Restaurants indicated no-change in headcounts).

Prices Charged Index

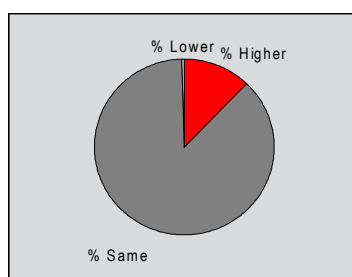
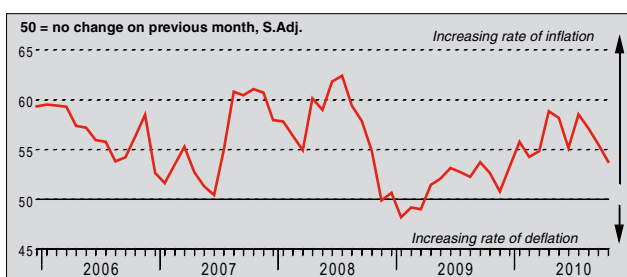
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index posted below the 50.0 no-change threshold in October, signalling a marginal reduction in Indian service companies' tariffs. The fall in charges followed a ten-month period of rises. Anecdotal evidence suggested that competition for new business had a constraining impact. The vast majority of panellists (approximately 97%) noted that charges were unchanged since September. At the detailed sector level, Transport & Storage and Financial Intermediation recorded the weakest rises in charges during October.

Input Prices Index

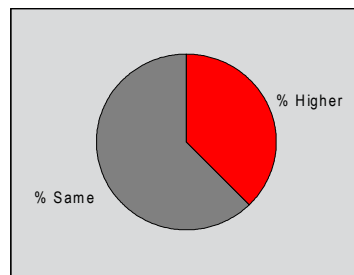
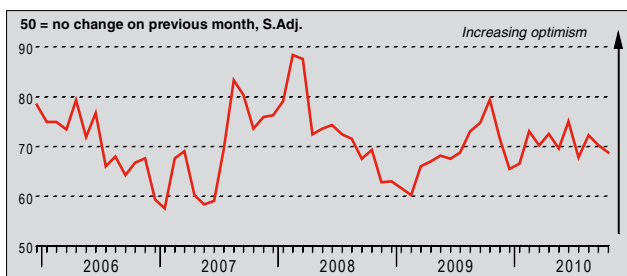
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input prices faced by companies in the Indian service sector increased solidly during October, with panellists predominately attributing this to higher wage costs. The prices of certain foods and medical products were also reported to have increased. However, the rate of input cost inflation slowed for a third successive period to a ten-month low (and was also lower than the long-run series average). Nonetheless, input costs have now risen continuously since April 2009. Of the six sub-sectors monitored, Hotels & Restaurants reported the greatest rise 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?



Indian service companies remained optimistic regarding future business expectations in October, with approximately 38% of panellists projecting activity to increase over the next year. Companies indicated that they expect increased advertising campaigns, good quality services, expansions of operations and a general improvement in market conditions to drive growth in activity. However, the overall degree of positive sentiment fell for the second month running, and was weaker than the long-run series average. Companies in the Hotels & Restaurants sector were the most confident of those monitored.

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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