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HSBC India Services PMI™

Growth of Indian service sector slowed in December, but remained marked.

Key findings:

- Expansion of new business weakened from November's three-month high.
- Employment rose for twenty-first successive month.
- Inflationary pressures built, with both input and output prices increasing at stronger rates.

December survey data, compiled by Markit for HSBC, signalled a marked increase of activity in the Indian service sector. However, this was weaker than in the previous survey period, reflective of slightly slower new business growth. Employment continued to rise, with outstanding business also accumulating at the end of 2010. However, input and output prices both increased again, and at accelerated rates.

The headline seasonally adjusted HSBC Business Activity Index posted 57.7 in December, down from November's 60.1. Whilst the latest figure pointed to marked growth of activity in the Indian service sector, it was weaker than the average for the year. Nonetheless, expansion in activity has now been sustained for twenty successive months. All six sub-sectors monitored reported a rise in activity during December, the strongest of which were in Hotels & Restaurants and Post & Telecommunications.

Incoming new business received by service companies in India increase at a marked rate in December, with growth now recorded in each survey period since May 2009. However, the latest expansion eased and, whilst stronger than the seventeen-month low recorded in October, was below the long-run series average.

Despite the weaker rise in new work intakes, outstanding business increased during December, ending a three-month period of contraction. Many panellists commented that the accumulation of work in hand reflected sustained growth in new business, suggesting that the latest rise in activity was

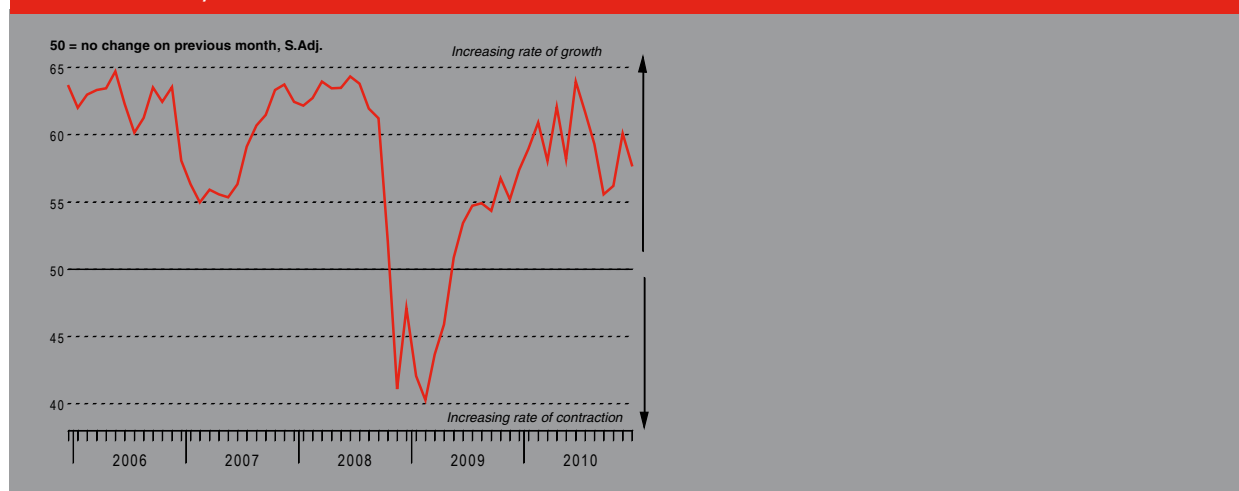
insufficient to meet requirements. Respondents in the Transport & Storage sub-sector reported the strongest increase in outstanding business.

Employment in the Indian service sector increased moderately during December. The rate at which staffing levels rose was broadly unchanged from that recorded in November, with panellists commenting that higher workloads had driven the latest increase in employment. Staffing levels have now risen continuously since April 2009.

December data signalled a marked rise in input costs faced by service companies in India. Higher staff and fuel costs were largely cited as the main drivers of input cost inflation. The latest rise in costs was the fastest in five months, and was strong in the context of historical data. Output prices also increased during December, and at a marked rate. The rise in charges was the sharpest since April, suggesting that companies found it easier to pass on higher costs during the month.

Service companies in India remained optimistic in December over future business prospects. Many panellists expect strengthened economic conditions, increased marketing and improved and expanded service offerings to support a rise in activity over the next twelve months. Companies in the Post & Telecommunications sub-sector were the most confident of those surveyed. However, the degree of overall positive sentiment eased slightly, and was below the long-run series average.

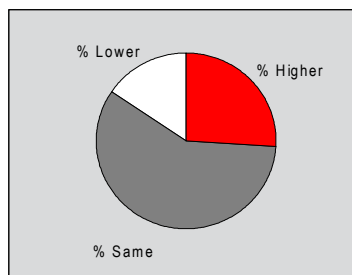
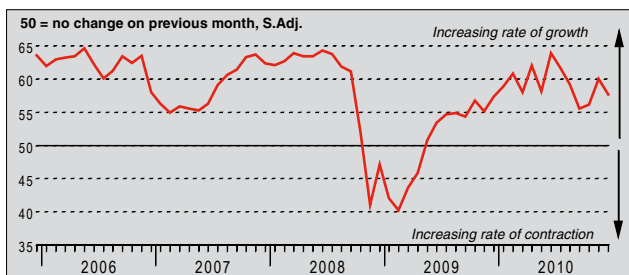
Business Activity Index



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

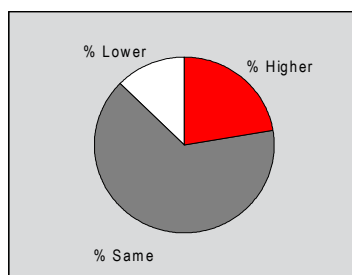
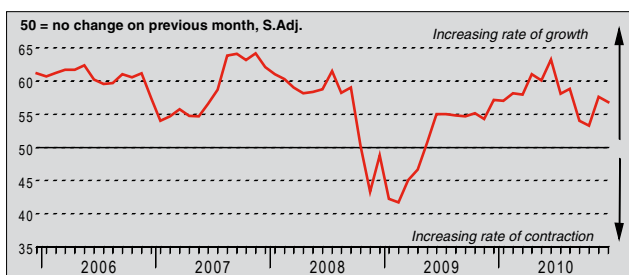
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service companies in India reported a marked rise in activity during December, extending the sequence of sustained growth to twenty months. Exactly 26% of panellists indicated that activity at their companies had increased during the month, commenting that this was primarily driven by a rise in new business. However, the rate of expansion slowed from the four-month high recorded in November and was slightly weaker than the long-run series average. At a sub-sector level, Hotels & Restaurants and Post & Telecommunications were the strongest performing of the six monitored.

New Business Index

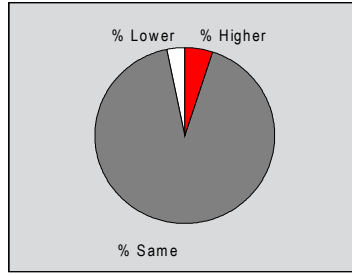
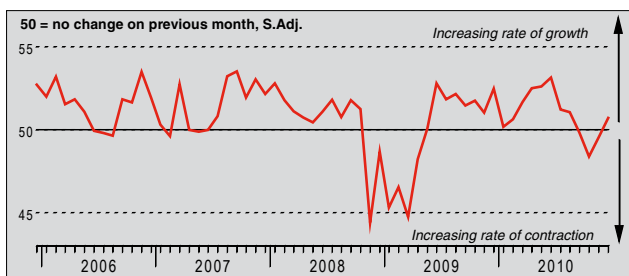
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



December data signalled a marked rise of incoming new business received by service companies in India. Anecdotal evidence suggested that the increase in new work intakes was supported by a general improvement in economic conditions, which led to a rise in new client gains. Whilst growth of new business has now been recorded in each month since May 2009, the latest expansion was weaker than in the previous survey period and below the historical average. Five of the six sub-sectors monitored reported a rise in new business (Other Services recorded a slight reduction), the strongest of which was in Post & Telecommunications.

Outstanding Business Index

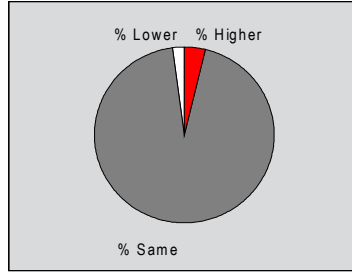
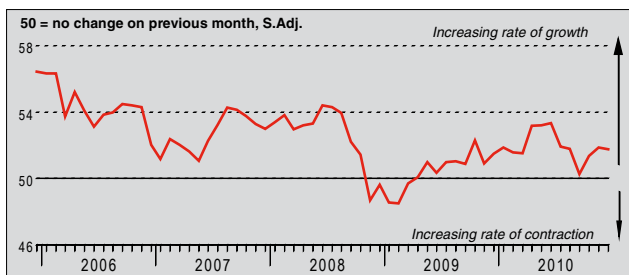
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at companies operating in the Indian service sector increased marginally during December. This ended a three-month period where work in hand had decreased. Panellists reporting a rise in outstanding business attributed this to higher new work intakes. However, the vast majority of respondents (approximately 92%) indicated that outstanding business was unchanged since November. Companies in the Transport & Storage sub-sector reported the largest rise in outstanding business, whilst those in Financial Intermediation and Post & Telecommunications saw reductions.

Employment Index

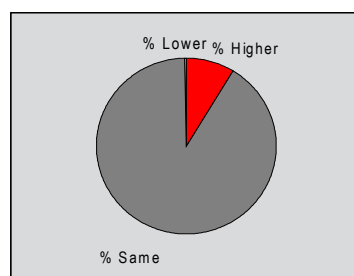
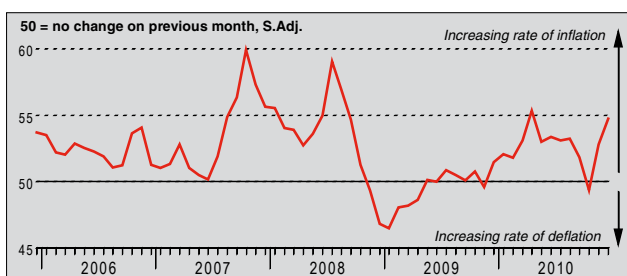
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



December data signalled a moderate rise in employment in the Indian service sector, with growth now recorded in each month since April 2009. The rate at which staffing levels increased was broadly unchanged from that reported in November, and remained marginally below the long-run average for the series. Where a rise in employment was indicated, expansion of new work intakes was cited as the primary driver. Other Services and Transport & Storage reported the strongest increases in staffing levels of the six sub-sectors monitored.

Prices Charged Index

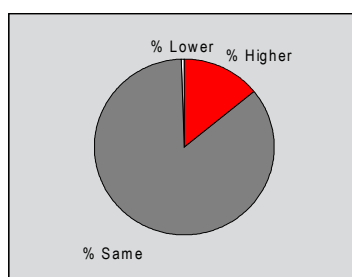
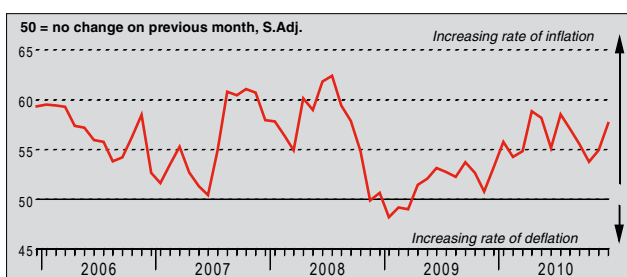
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service companies reported a marked rise in their charges during December, with increases now recorded in twelve of the last thirteen months. Moreover, the rate of output price inflation accelerated since November to the strongest since April, and was above the long-run series average. Anecdotal evidence suggested that a sustained increase in input costs led to the latest rise in output prices. At a sub-sector level, the largest increase in charges was seen in Hotels & Restaurants.

Input Prices Index

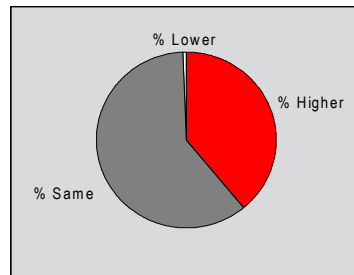
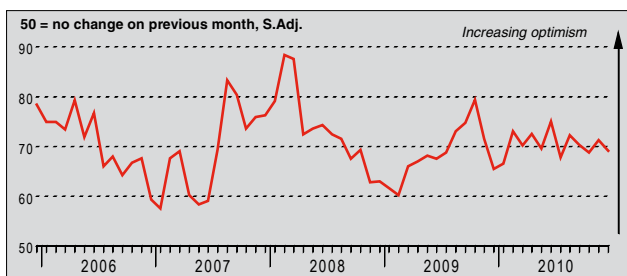
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



December data signalled a marked rise in input prices faced by service companies in India. The rate of input cost inflation accelerated solidly to the strongest since July, and was strong in the context of historical data. Approximately 14% of panellists reported a rise in input prices, primarily commenting that staff and fuel costs had increased. Input prices have now risen in each month since April 2009. All six sub-sectors monitored reported a rise in input costs, the strongest of which was in Hotels & Restaurants.

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 companies in India remained confident in December that activity would increase over the next twelve months. Exactly 39% of panellists indicated that they were optimistic over future business prospects, noting that they expect strengthened economic conditions, increased marketing and improved and expanded service offerings to boost activity. However, the degree of positive sentiment eased slightly, and was below the long-run series average. Companies in the Post & Telecommunications sub-sector were the most optimistic regarding future business prospects.

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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