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HSBC India Services PMI™

Growth of Indian service sector strongest in seven months.

Key findings:

- Marked expansion of new business supported rise in activity.
- Employment continued to increase at a modest rate.
- Input price inflation slowed, but remained fast.

February survey data, compiled by Markit for HSBC, signalled a strong expansion of activity in the Indian service sector. Moreover, activity has now increased in each month since May 2009, with the latest rise led by further growth of new work intakes. Subsequently, employment in the sector increased again. Input and output prices both rose in February, but at weaker rates than in the previous survey period. Despite easing, inflationary pressure remained sharp in the context of historical data.

The headline seasonally adjusted HSBC Business Activity Index posted 60.2 in February, up from January's 58.1. The latest figure signalled a marked expansion of the Indian service sector, that was the fastest since July 2010. Moreover, growth was above the long-run trend. All six sub-sectors monitored recorded a rise in activity, the fastest of which was in Hotels & Restaurants.

New business received by Indian service companies increased markedly during February. Panellists commented that ongoing improvements in market conditions, alongside goodwill created from the high quality of services provided, had contributed to the latest rise in new work intakes. Growth of new business has now been sustained for twenty-two successive months, with the latest increase the strongest since June 2010.

Indian service companies reported a rise in outstanding business during February for a third consecutive month. However, the extent of the accumulation of work-in-hand was

only marginal. Highlighting this, the majority of panellists indicated that outstanding business was unchanged since January.

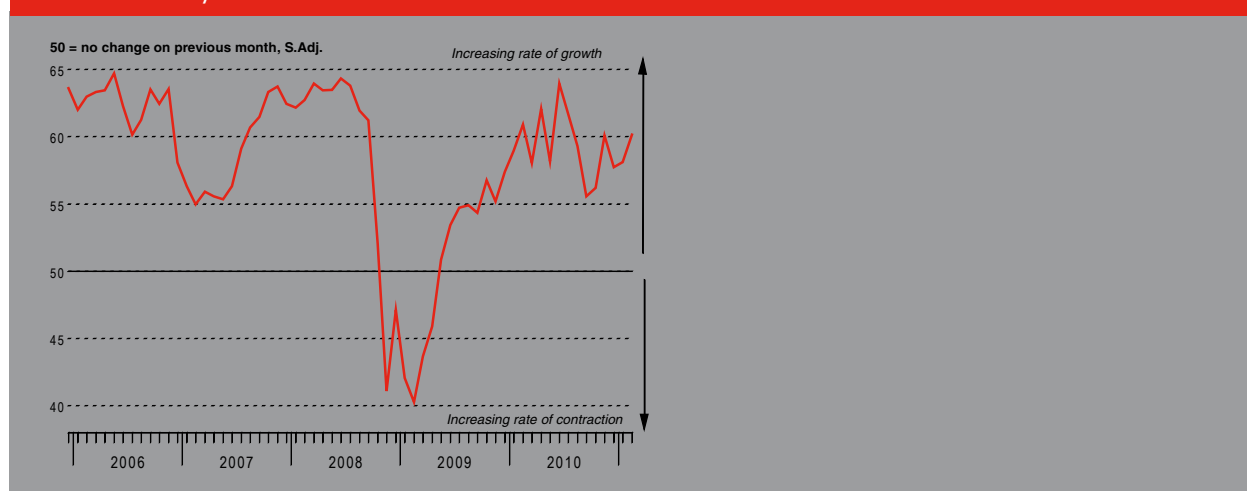
Reflective of sustained growth of both new business and activity, employment in the Indian service sector increased in February. The rate of job creation was the second-strongest in eight months, but was below the long-run average for the series. Some respondents commented that a lack of available labour had prevented a greater rise in employment.

Input costs faced by service companies in India increased markedly during February, driven primarily by higher prices for staff, food and fuel. The rise in input costs slowed since January, but was the second-fastest in the current twenty-three month sequence of inflation, and was above the long-run trend.

The increase in costs led to a further rise in prices charged by Indian service providers. Tariffs also increased at a weaker rate than in January, but were strong in the context of historical data. Anecdotal evidence suggested that competition for new business had prevented a faster rise in charges.

Indian service companies were optimistic in February that business activity would grow over the next twelve months. Strengthening economic conditions, increased marketing and existing goodwill were all expected to boost activity. The degree of positive sentiment in the sector was the strongest in sixteen months.

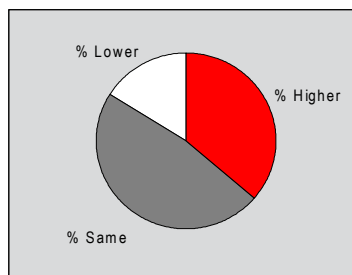
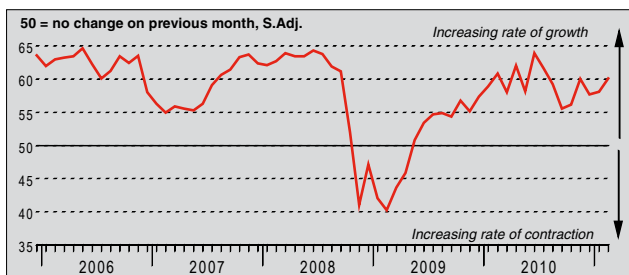
Business Activity Index



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

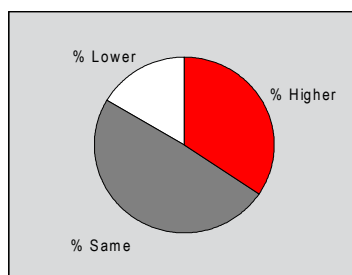
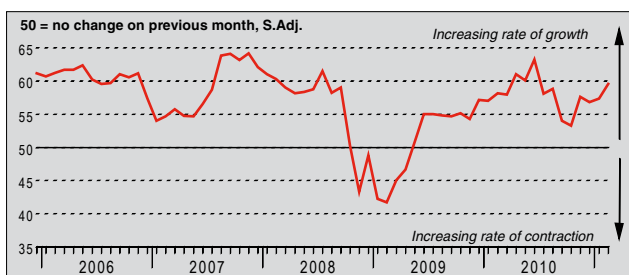
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



February data signalled a substantial rise of business activity in the Indian service sector. Moreover, growth was the strongest in seven months, and above the long-run series average. Approximately 36% of panellists indicated that activity at their companies had increased from the previous survey period, attributing this to a further rise in incoming new business. At a sub-sector level, Hotels & Restaurants and Post & Telecommunications reported the sharpest expansions in activity. Overall, growth has now been recorded for twenty-two successive months.

New Business Index

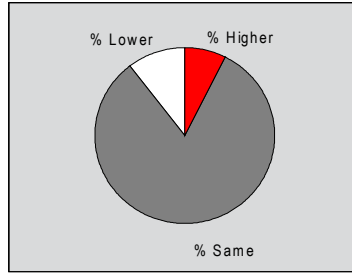
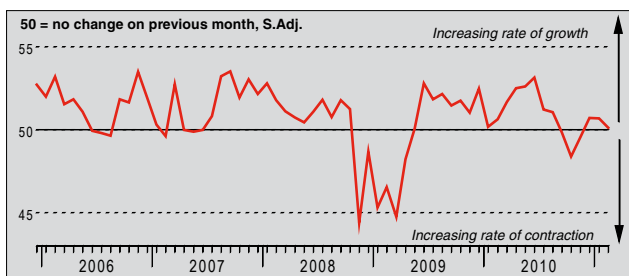
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Indian service companies reported a marked rise in incoming new business during February, extending the current sequence of sustained expansion to twenty-two months. Ongoing improvements in market conditions was cited as the main driver of growth in the current survey period. However, some companies also noted that goodwill created from the high quality of services provided had helped to boost business. The latest increase in new work intakes was the strongest since June 2010, with panellists in the Hotels & Restaurants sub-sector noting the sharpest rise in new business.

Outstanding Business Index

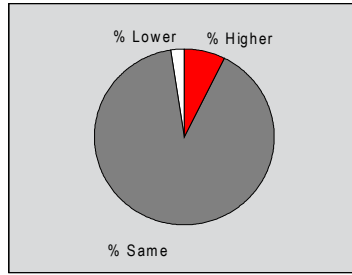
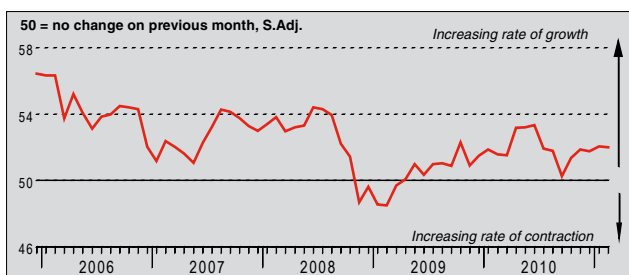
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted slightly above the 50.0 no-change threshold in February, indicating a marginal rise in work-in-hand. This was the third successive month in which outstanding business was reported to have increased, although the latest accumulation was the weakest in that period and below the long-run trend. Financial Intermediation companies indicated the largest rise of work-in-hand. However, in line with the overall marginal accumulation signalled, the majority of panellists (approximately 82%) noted that outstanding business was unchanged since January.

Employment Index

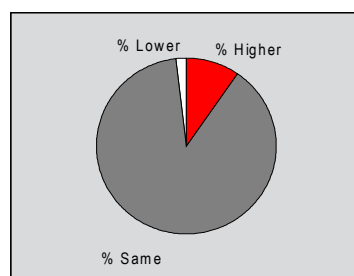
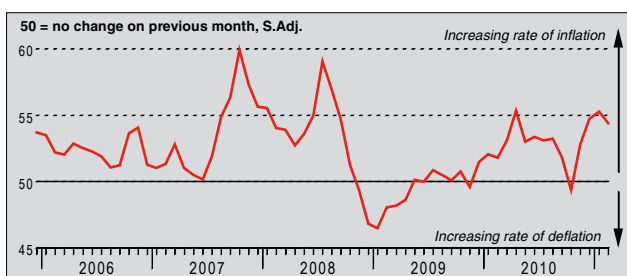
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Indian service sector increased modestly during February, with growth now recorded in each month since April 2009. Anecdotal evidence suggested that the rise in staffing levels reflected further increases in new business and activity. However, some companies noted that shortages of available labour prevented a sharper rise in employment. Nonetheless, the latest rate of job creation was broadly unchanged from that indicated in January, and the second strongest in eight months. All six sub-sectors monitored recorded a rise in staffing levels. The increase was fastest amongst Financial Intermediation companies, followed by Hotels & Restaurants.

Prices Charged Index

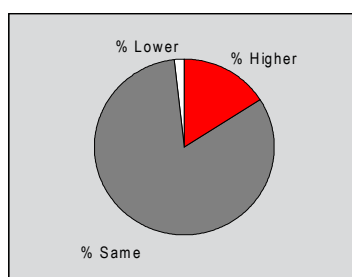
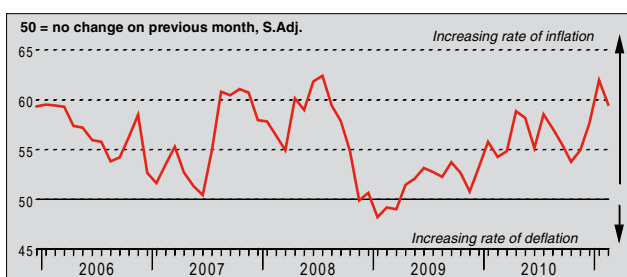
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service providers increased their tariffs during February for a fourth successive month. The extent to which charges rose was marginally weaker than in January, but remained strong in the context of historical data. Panellists reporting an increase in charges attributed this to further rises in input costs. However, some companies were prevented from increasing their charges due to competition for new business. Respondents in the Hotels & Restaurants sub-sector were the most successful at raising charges during the month.

Input Prices Index

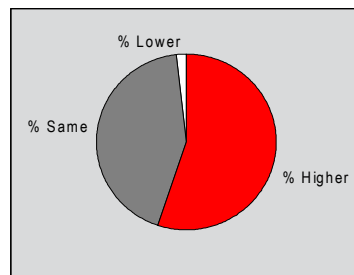
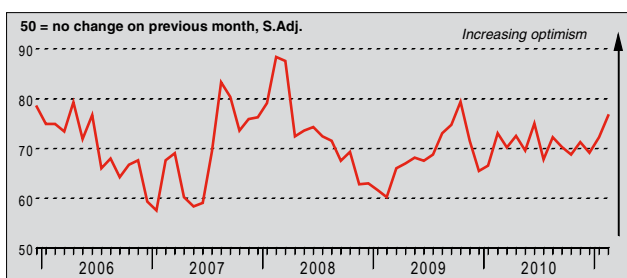
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by service providers in India increased markedly during February. Approximately 16% of panellists indicated that costs had risen in the month, commenting that higher staff, food and fuel prices had been the main drivers of inflation. Companies operating in the Hotels & Restaurants sub-sector noted the sharpest rise in input prices, whilst Financial Intermediation firms saw the weakest. The latest increase in overall costs slowed from January's thirty-month high, but was the second-strongest in the current sequence of input price inflation, which has been sustained since April 2009.

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 were optimistic in February that business activity would rise over the next twelve months. Moreover, the degree of positive sentiment was the strongest since October 2009, and comfortably above the long-run series average. Approximately 55% of respondents anticipate an improvement in business conditions, with strengthening economic conditions, increased marketing and goodwill expected to be the main contributors. Panellists in all six sub-sectors monitored were confident that activity would rise, although this was strongest for Post & Telecommunications firms.

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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