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## HSBC India Services PMI™

Indian service sector activity rose at weakest rate for twenty months in May.

### Key findings:

- Slower growth of activity reflected weaker increase in new business.
- Input and output price inflation diverged, suggesting squeeze on margins.
- Business confidence falls to the weakest since July 2010.

May PMI™ survey data pointed to an expansion of Indian service sector activity for the twenty-fifth successive month. This was signalled by the headline HSBC Business Activity Index posting 55.0. However, the latest reading was lower than April's 59.2 and the weakest since September 2009. The slowdown in activity growth was led by a weaker expansion of new business, where the rate of increase slowed for a third successive month. Meanwhile, input cost inflation accelerated in May, but the latest increase in charges was marginally weaker than in April, suggesting a squeeze on service providers' margins.

Incoming new business received by service companies in India increased for a twenty-fifth successive month in May, supported by ongoing improvements in market conditions and successful advertising campaigns. However, growth of new work intakes was the weakest since October 2010, and below the long-run series trend.

Despite a weakening in the rate of expansion of activity, outstanding business was reported to have decreased for a second month running. The depletion was sharper than that seen in April, and in contrast to the historical trend (which signals a marginal increase in backlogs of work). Panellists commented that a weaker rise in new work intakes had enabled them to catch up with work outstanding.

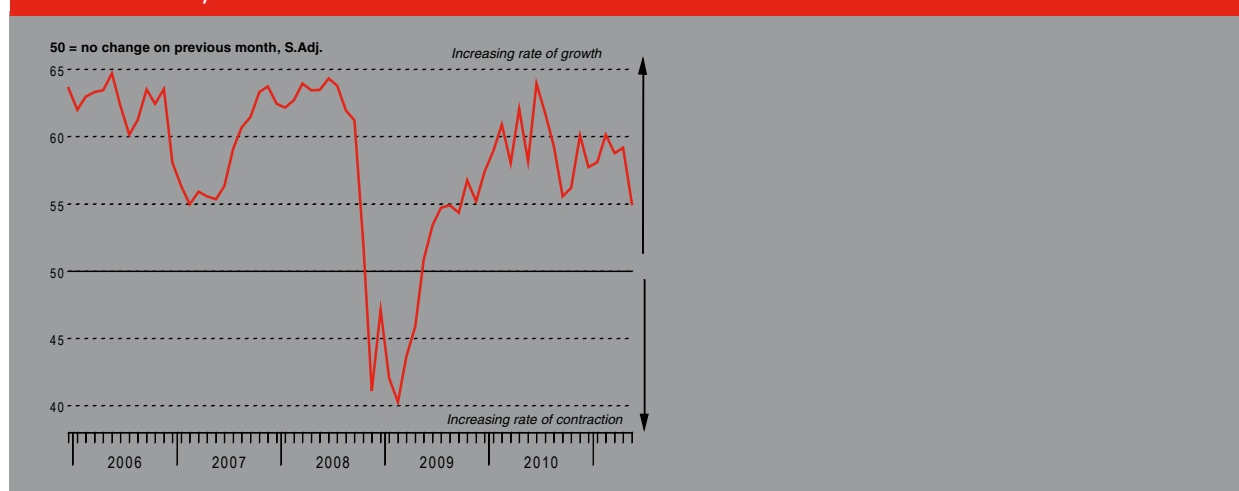
May data signalled a solid rise in employment in the Indian

service sector. Furthermore, the rate of job creation accelerated slightly since April, despite slowdowns in new business and activity growth. Anecdotal evidence suggested that the latest increase in staffing levels, which was the twenty-sixth in successive months, was supported by rising workloads as well as an expansion of service offerings.

While weaker than seen during the first quarter of the year, input costs continued to rise at a marked rate in May, and to a greater extent than in the previous survey period. Panellists commented that higher wage bills and rising raw material prices had been the main drivers of input cost inflation, which has now been recorded in each month since April 2009. The rate of output price inflation slowed in the month, although the latest increase in charges remained strong in the context of historical data. Companies noted that improving demand and market conditions had enabled the rise in tariffs and the partial pass-on of higher costs.

Indian service companies were optimistic in May that activity levels would rise over the next twelve months. The expected increase in activity is set to be led by ongoing improvements in economic conditions, alongside increased marketing and the high quality of services provided. However, the degree of positive sentiment fell markedly since April to the weakest in ten months. Confidence was the lowest in the Renting & Business Services sub-sector.

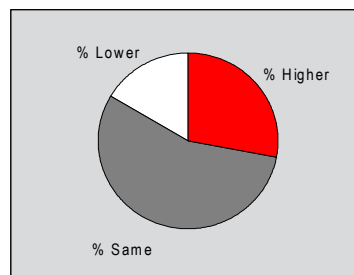
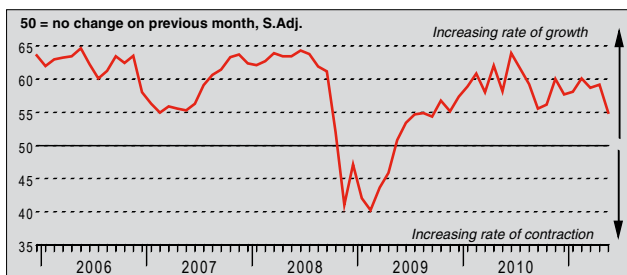
### Business Activity Index



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. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Business Activity Index

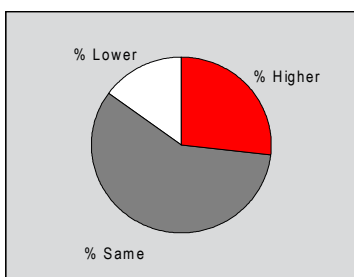
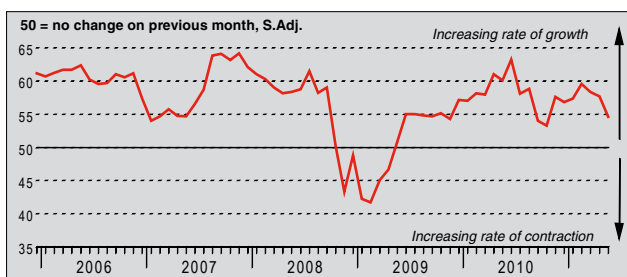
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Indian service providers reported a marked rise in business activity during May, extending the sequence of sustained growth to twenty-five months. Exactly 28% of panellists indicated that activity at their companies was higher than in the previous survey period, attributing this to a further increase in incoming new business. At a sub-sector level, Financial Intermediation saw the sharpest rise in activity. However, the rate of overall growth slowed to the weakest for twenty months and was below the long-run series average.

### New Business Index

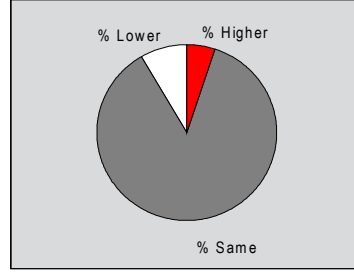
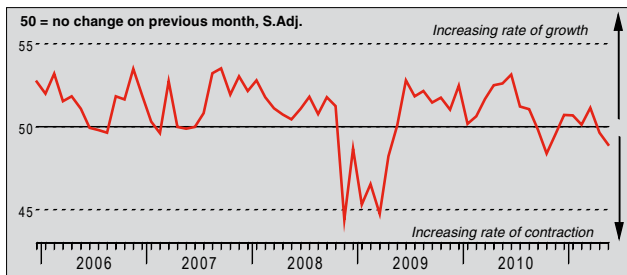
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



May data signalled a solid rise in new business received by service companies in India, extending the current period of growth to over two years. Anecdotal evidence suggested that ongoing improvements in general market conditions had helped to boost demand. Additionally, a number of respondents noted that new work had been obtained from successful marketing campaigns. However, the rate of expansion slowed for the third month running to the weakest since October 2010. Financial Intermediation and Post & Telecommunications were the two strongest performing sub-sectors.

### Outstanding Business Index

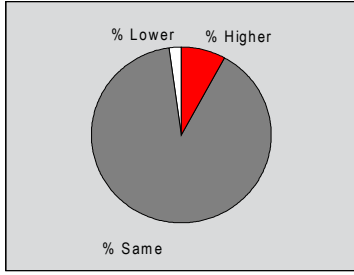
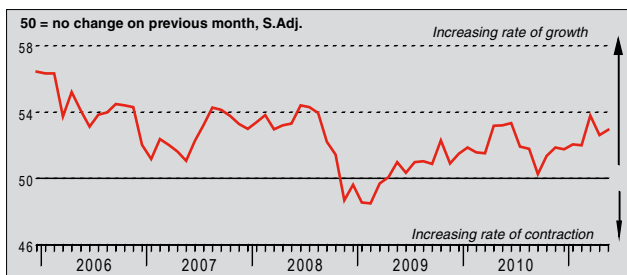
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Levels of outstanding business at service companies in India were reported to have declined on average during May. Panellists commented that slower growth of new work intakes had provided the opportunity to cut backlogs of work. This was the second successive month where a reduction in outstanding business was indicated, although the rate of decrease was marginal with the majority of respondents (approximately 87%) noting that there was no change in backlogs of work since April. Companies within the Transport & Storage sub-sector reported the sharpest decrease in outstanding business.

### Employment Index

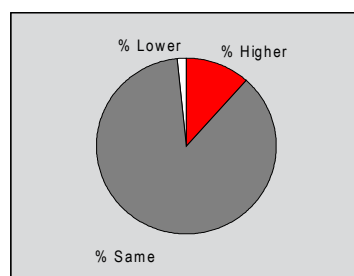
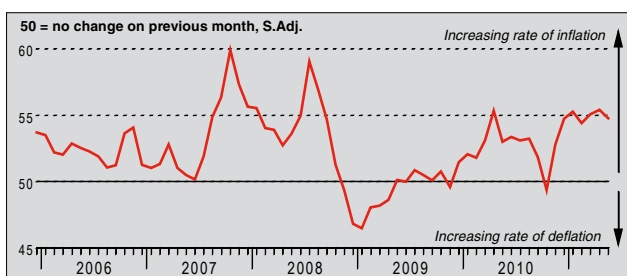
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



A solid rise of employment in the Indian service sector was reported in May, with growth now indicated in each month since April 2009. Moreover, the rate of job creation was slightly faster than in the previous survey period, and above the long-run trend. Companies noting an increase in staffing levels commented that this reflected sustained expansions of activity and new business. However, some panellists also noted an increase of their service offerings, and had consequently recruited additional employees. All six sub-sectors recorded a rise in staffing levels in May, with the strongest growth recorded for Transport & Storage.

## Prices Charged Index

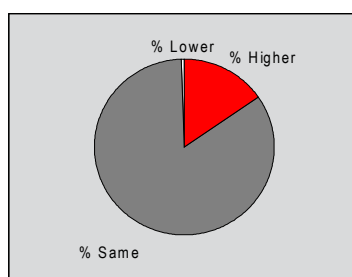
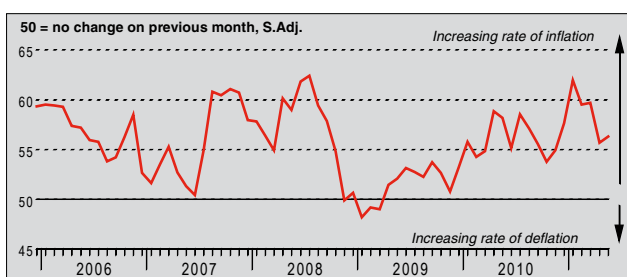
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service companies reported a marked rise in their charges during May, citing further increases in input costs and wages as contributors to this. However, improvements in market conditions and demand were also noted to have given scope to raise rates. At a sub-sector level, Financial Intermediation posted the steepest increase in charges. Overall, tariffs have now increased for seven successive months, with the rate of inflation remaining strong in the context of historical data, despite a slight slowing since April.

## Input Prices Index

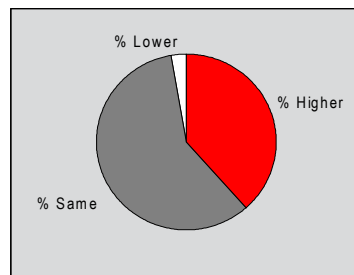
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs faced by service companies in India increased markedly during May. The rate of cost inflation accelerated since April and was marginally above the long-run trend, but was weaker than the elevated levels seen in the first quarter of the year. Respondents noting a rise in input prices commented that this largely reflected higher wage bills, but that increased raw material costs had also contributed to the rise in input prices. Higher costs were reported across all six sub-sectors monitored. Input price inflation has now 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 confident in May that activity levels would rise over the next twelve months, supported by ongoing improvements in general economic conditions, increased marketing and the high quality of services provided. However, the degree of positive sentiment eased for a third successive month to the weakest since July 2010, with only around 38% of panellists expecting business prospects to improve (compared to 47% in April). At a sub-sector level, Renting and Business Services were the least optimistic, while Post & Telecommunications companies were the most confident.

## 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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