

Embargoed until: 10:30 (MUMBAI), 3 August 2011

## HSBC India Services PMI™

Growth of Indian service sector activity accelerates to three-month high

### Key findings:

- Stronger expansion of new business supports marked increase in activity
- Backlogs of work rise, but employment falls
- Inflationary pressures intensify, in contrast to the trend seen in June

July PMI™ survey data signalled a marked expansion of the Indian service sector, signalled by the headline HSBC Business Activity Index posting 58.2. The latest reading improved from June's 56.1 as activity increased at the fastest rate in three months. Growth was broadly in line with the long-run series average. A strong rise in new business supported the increase in output, but backlogs of work rose. In spite of this, employment fell for the first time in 28 months. Meanwhile, inflationary pressures accelerated, as both input costs and charges increased at faster rates.

Service providers in India reported an expansion of new business during July, attributing this to a general strengthening of demand alongside new client wins. All six sub-sectors monitored noted an increase in new business, although this was strongest for Post & Telecommunications. The latest sharp rise in overall new work intakes, which was the twenty-seventh in successive months, was the strongest since February.

Backlogs of work increased during July, in contrast to the previous three survey periods. Anecdotal evidence suggested that higher workloads and delays in payments had contributed to the rise in outstanding business. The rate of accumulation was modest, but sharp in the context of historical data.

July data signalled a reduction in employment in the Indian service sector. This was in spite of marked growth of both new business and activity, and an increase in work-in-hand.

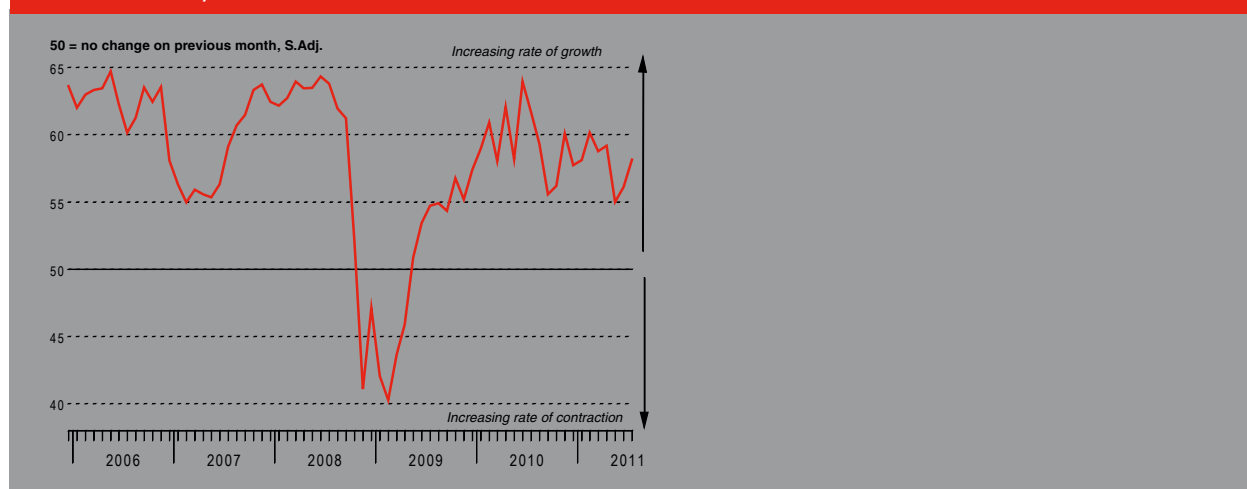
Panelists commented that the fall in staffing levels, which was the first since March 2009, reflected shortages of available labour to fill vacant positions. Some respondents also noted that salary requirements of workers had not been met, leading to resignations, and there were other reports that incoming new business received by some companies had decreased.

Input costs faced by service providers in India increased during July. Moreover, the rate of input price inflation accelerated since June to a four-month high. Anecdotal evidence cited higher fuel and staff costs as the main drivers of rising input prices. The sharpest increase in costs was recorded by the Hotels & Restaurants sub-sector.

Prices charged by Indian service companies also rose in July, with the rate of output price inflation the strongest in three years. The increase in input costs contributed to the rise in charges, although a stronger demand environment helped to support the extent of the increase. All six sub-sectors surveyed recorded a robust rise in output prices.

Indian service providers were optimistic in July that activity would rise over the next twelve months. Confidence regarding future business prospects was supported by expectations of improving market conditions, plans for expansions of operations and service offerings and increased promotional activity. Nonetheless, the degree of positive sentiment was slightly weaker than that indicated in June.

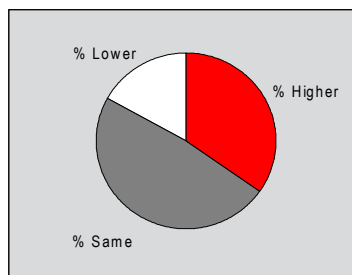
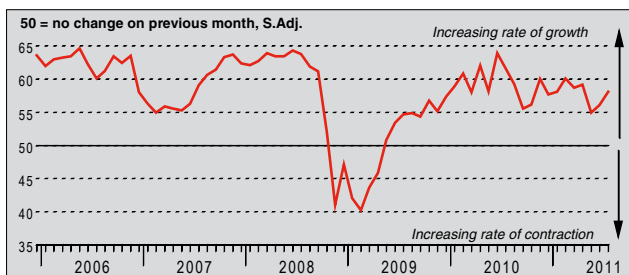
### Business Activity Index



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

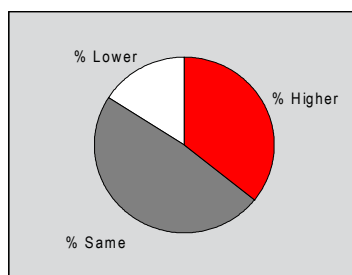
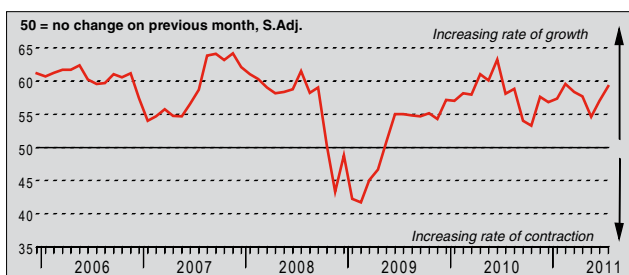
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Activity in the Indian service sector increased markedly during July, extending the sequence of sustained expansion to 27 months. Moreover, the rate of growth accelerated since June to a three-month high and was in line with the long-run series average. Approximately 35% of panellists recorded a higher level of activity compared to the previous survey period, attributing this to a rise in new business volumes. Companies operating within the Post & Telecommunications sub-sector reported the sharpest rise in activity.

### New Business Index

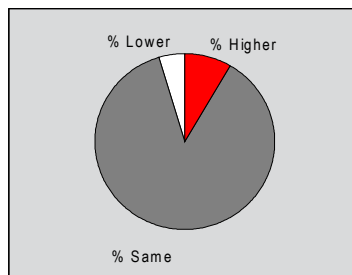
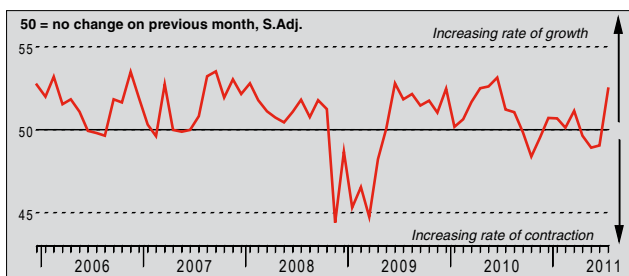
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



July data signalled a marked rise in new business received by service companies in India. With approximately 36% of panellists noting a higher level of new work intakes, the latest expansion was the strongest since February and above the long-run trend. Anecdotal evidence suggested that a general improvement in demand and a rise in new customer wins had contributed to the increase in new business. All six sub-sectors monitored recorded growth of new contract wins. Overall, growth of new work intakes has now been sustained in each month since May 2009.

### Outstanding Business Index

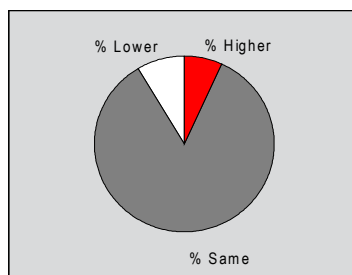
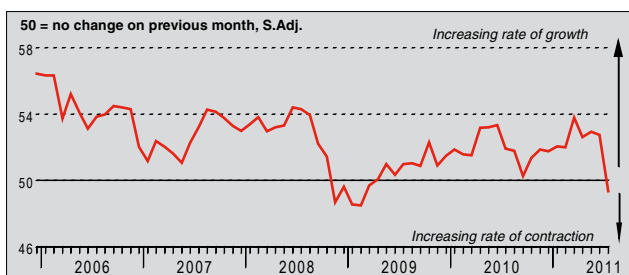
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Indian service providers reported a rise in outstanding business during July, in contrast to the previous three survey periods. The rate of accumulation was modest, but strong in the context of historical data. Panellists indicating an increase in the level of work-in-hand at their companies commented that this reflected a marked rise in new business during the month, alongside delays in payments from clients. Three of the six sub-sectors surveyed recorded an increase in backlogs, the strongest of which was in Renting & Business Services.

### Employment Index

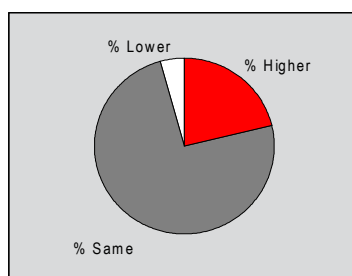
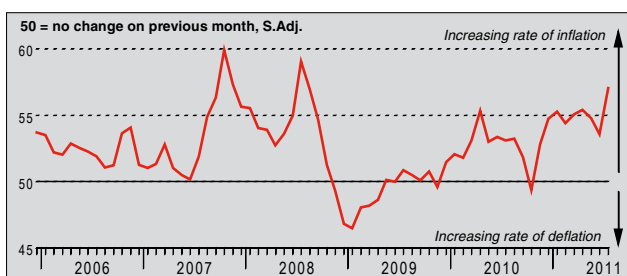
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Indian service sector fell in July for the first time since March 2009. Anecdotal evidence suggested that companies faced shortages of available labour to fill vacant positions. Additionally, some panellists commented that workers' salary requirements had not been met, leading to resignations, and in some cases that output had decreased. Nonetheless, the rate at which jobs were cut was marginal, with the majority of respondents (approximately 85%) indicating that staffing levels at their companies were unchanged since June.

## Prices Charged Index

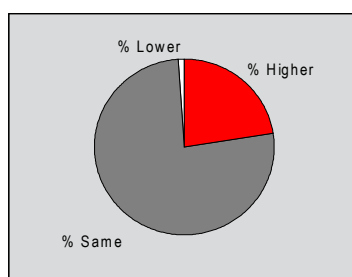
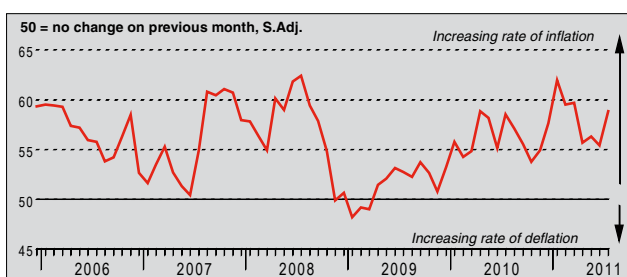
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Indian service providers increased markedly during July, with rises recorded in each month since November 2010. Furthermore, with approximately 21% of panellists noting a rise in charges compared to the previous survey period, the rate of output price inflation accelerated to the fastest in three years. Panellists predominately cited a further rise in input costs as the main driver of the increase in charges, which was supported by a stronger demand environment. All six sub-sectors monitored recorded a robust increase in output prices.

## Input Prices Index

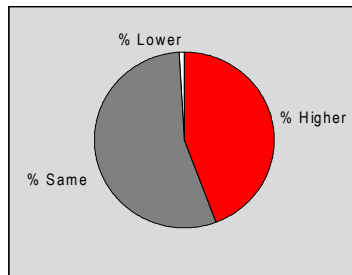
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



July data signalled a marked rise in input costs faced by service providers in India. The rate of inflation accelerated since June to a four-month high, and was strong in the context of historical data. Anecdotal evidence suggested that higher wage bills and fuel costs were the main contributors to the increase in input prices. The Hotels & Restaurants sub-sector particularly noted a sharp rise in input prices. Overall, input cost inflation has now been recorded in each of the last 28 months.

## 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 providers were optimistic in July that business activity would increase over the next twelve months. The degree of positive sentiment was moderately weaker than in the previous survey period, but remained marginally above the long-run series trend. Of the roughly 44% of panellists that indicated confidence regarding future activity growth, improving market conditions, expansions of operations and service offerings and increased promotional activities were cited as the main contributors. Transport & Storage was the most optimistic sub-sector.

## Notes on the Data and Method of Presentation

The India Services *PMI*<sup>TM</sup> 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.

## Warning

The intellectual property rights to the HSBC India Services *PMI*<sup>TM</sup> provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*<sup>TM</sup> and *PMI*<sup>TM</sup> 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.