

Embargoed until: 10:30 (MUMBAI), 5 September 2011

HSBC India Services PMI™

Growth of Indian service sector activity slows to 26-month low

Key findings:

- Weaker expansion of new business underpins slower activity growth
- Employment falls for second month running
- Output prices rise at accelerated rate

August *PMI™* survey data signalled a solid expansion of the Indian service sector, with growth now sustained for 28 successive months. However, posting 53.8, the headline HSBC Business Activity Index decreased from July's reading of 58.2 to the weakest since June 2009. Furthermore, the extent of the latest increase was well below the long-run series trend. A weaker rise in new business was the primary contributor to the easing in the expansion of activity, and also impacted negatively on employment, which fell for a second successive month. Meanwhile, input prices continued to rise markedly, with the rate of inflation broadly consistent with that recorded in July. Output prices increased at the fastest pace in just over three years.

Indian service providers registered a marked increase in new business received during August, with growth now recorded in each month since May 2009. However, the rate of expansion slowed notably since July to a three-month low, as a dampening in the improvement of economic conditions led to a weaker rise in demand.

Activity growth slowed in August, reflective of the easing in the expansion of new work intakes. Levels of outstanding business were reported to have increased for a second successive month. Anecdotal evidence suggested that the rise in new business led to the increase in backlogs, suggesting that the slowdown in activity growth more than offset that of new work intakes.

August data signalled a reduction in employment in the Indian

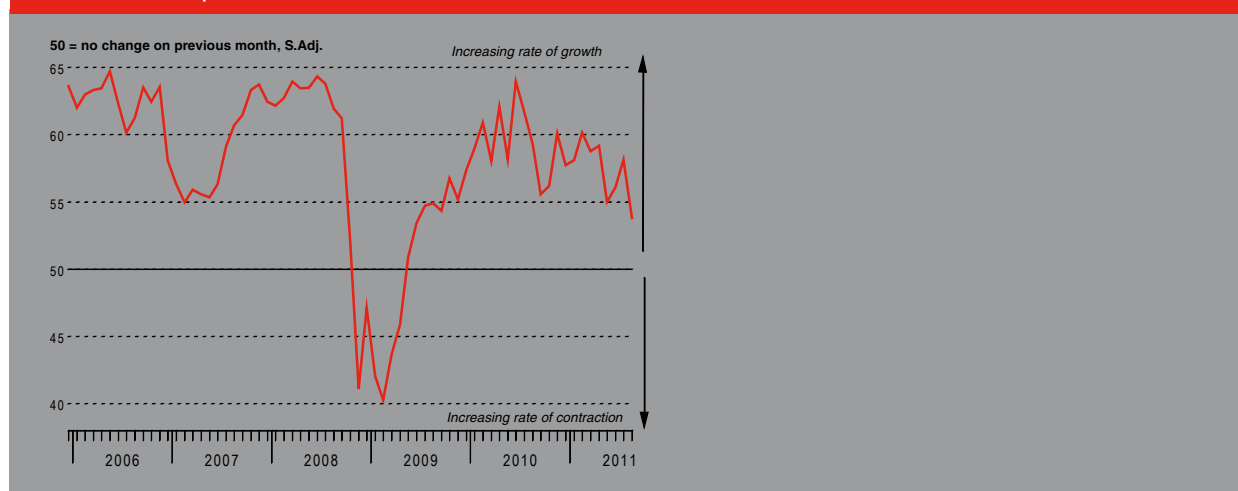
service sector. This was the second consecutive month where a decrease in staffing levels was indicated, with the latest decline slightly faster than in the previous survey period. Panellists commented that the weaker rise in new business had led to job cuts. However, some respondents also noted that unfulfilled requests for higher employee salaries had also resulted in lower staffing levels. Nonetheless, the decrease in employment was marginal, with the majority of panellists noting no change from the previous survey period.

Input costs faced by Indian service companies continued to rise at a marked rate in August. Higher wage bills, alongside increased costs for fuel and transportation, were cited as the main drivers of input price inflation. The latest rise in costs was the twenty-ninth in as many months, and remained strong in the context of historical data.

Output prices also rose sharply during the month. Moreover, the rate of charge inflation accelerated to the fastest in just over three years. Anecdotal evidence suggested that Indian service providers had increased their output prices in response to higher input costs.

Service companies in India remained optimistic in August that activity would increase over the next 12 months. Improved market conditions and increased marketing campaigns are expected to boost activity levels. The degree of positive sentiment weakened slightly since July, but was broadly in line with the historical average for the series.

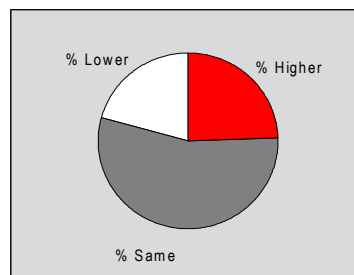
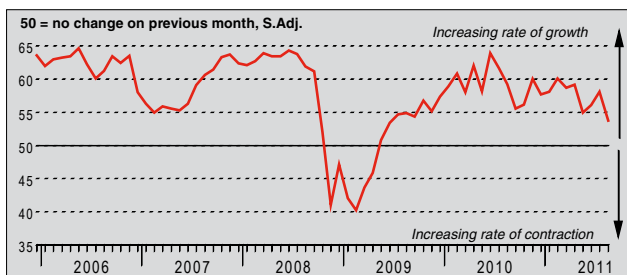
Business Activity Index



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

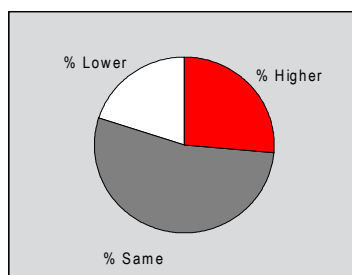
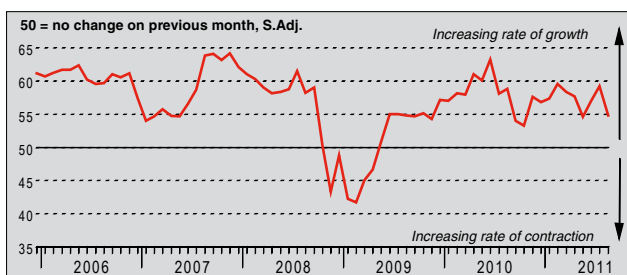
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



August data signalled a solid rise in activity in the Indian service sector. Approximately 24% of panellists noted an increase in activity compared to the previous month, attributing this to further growth of incoming new business. At a sub-sector level, Hotels & Restaurants and Post & Telecommunications registered the sharpest rises in activity. However, the overall rate of expansion slowed markedly since July to a 26-month low as growth of new work intakes slowed. The latest rise was weak in the context of historical data. Nonetheless, activity has increased in each month since May 2009.

New Business Index

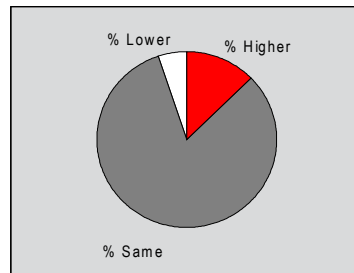
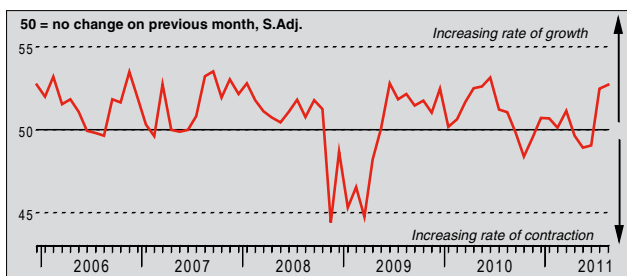
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business received by service companies in India increased markedly during August, extending the sequence of sustained growth to 28 months. Panellists noting a rise in new work intakes cited improved demand among clients as the main contributor. However, the rate of new business expansion eased since July, to the slowest in three months, and was below the long-run trend. Reports suggested that weaker growth was due to a dampening in the improvement of general economic conditions. Post & Telecommunications was the strongest performing sub-sector in August.

Outstanding Business Index

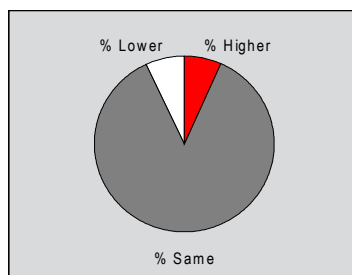
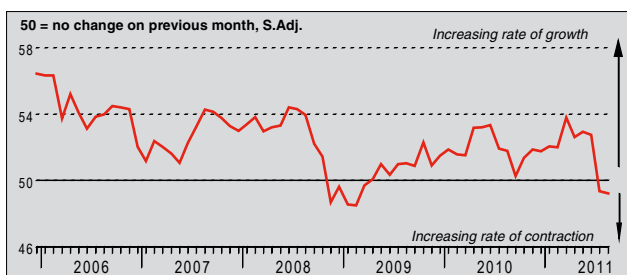
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Indian service providers reported a modest rise in levels of outstanding business at their companies in August. The rate of accumulation was slightly faster than that indicated in July, and the sharpest since June 2010. Approximately 13% of respondents noted a higher level of work-in-hand compared to the previous survey period, and commented that this reflected a further increase in new business. Four of the six sub-sectors monitored recorded an accumulation of backlogs.

Employment Index

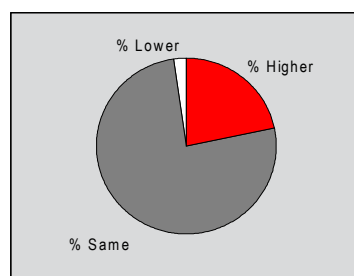
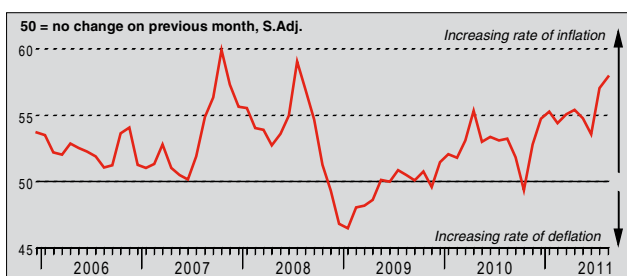
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



August data signalled a marginal reduction in employment in the Indian service sector. This was the second successive monthly decline in staffing levels, with the rate of job cuts broadly unchanged from the previous survey period. Panellists recording a lower level of employment at their companies noted that this was largely driven by weaker new business growth. Some respondents also indicated that unfulfilled higher salary requirements had led some staff to leave. Overall, the majority of panellists (approximately 86%) reported no change in employment from the previous survey period.

Prices Charged Index

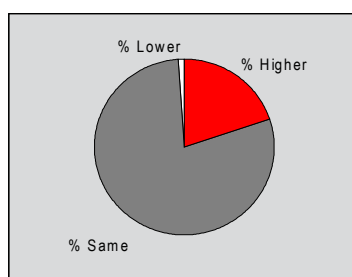
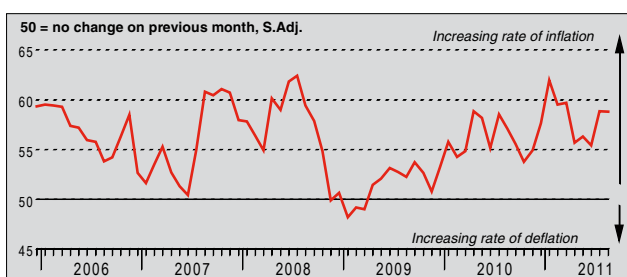
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by service providers in India increased markedly during August. Moreover, with approximately 22% of respondents noting a rise in their charges, the rate of output price inflation accelerated for a second month running to the fastest in just over three years. Higher input costs were frequently cited as the main driver of rising charges. At a sub-sector level, all six categories monitored reported an increase in output prices. Overall, charges have increased in each of the last ten months.

Input Prices Index

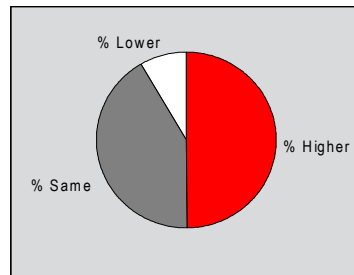
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Indian service providers faced a marked rise in input prices during August. Anecdotal evidence suggested that higher wage bills, alongside increased fuel and transportation costs, had been the main contributors to the latest rise in input costs. While all six sub-sectors monitored reported an increase in input prices, the sharpest rise was recorded for Hotels & Restaurants. The overall rate of input cost inflation was broadly unchanged from the previous survey period, and remained strong in the context of historical data. Rising input prices have been indicated in each month 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 remained optimistic in August that business activity would increase over the next 12 months, with approximately one-half of panellists expecting growth compared to around 8% forecasting a contraction. Confidence was supported by a projected improvement in market conditions, with many companies noting that they also anticipate a rise in activity to result from increased marketing campaigns. Respondents in the Post & Telecommunications sub-sector were the most optimistic of the six surveyed. The degree of overall positive sentiment weakened slightly since July, and was broadly in line with the historical average for the series.

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.

Warning

The intellectual property rights to the HSBC India Services *PMI™* 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™* 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.