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HSBC India Services PMI™

Growth of Indian service sector ceases in September as activity stagnates

Key findings:

- Weaker rise in new business main contributor to broadly unchanged level of activity
- Employment continues to decline
- Output prices increase at faster pace than costs for first time in series history

September PMI™ survey data signalled a broadly consistent level of activity in the Indian service sector compared with that seen in August. This was highlighted by the headline HSBC Business Activity Index posting 49.8, negligibly below the 50.0 no-change threshold that separates expansion from contraction. Falling from 53.8 in August, September's reading signalled an end to the 28-month sequence of output growth.

A further weakening of the expansion in new business was the main driver of the stagnation in activity. Nonetheless, a rise in outstanding business indicated that the latest increase in new work intakes may have been more than existing workforces could accommodate. Despite this, employment fell for a third successive month, but at a marginal rate. Inflationary pressures eased slightly since August, but the rise in output prices was stronger than that of costs. Meanwhile, panellists indicated that they expect activity to grow over the next year. However, the degree of positive sentiment weakened.

Indian service providers reported an increase in new business during September, continuing the trend recorded since May 2009. However, the rate of expansion slowed since August to the second-weakest in that period. Anecdotal evidence suggested that this reflected softening economic conditions that had dampened demand.

Levels of outstanding business at Indian service companies increased for a third month running in September. However, the rate of accumulation was marginal, and the majority of respondents noted no change in levels of work-in-hand from

the previous survey period. Where a rise in outstanding business was reported, this was attributed to the higher level of new work intakes.

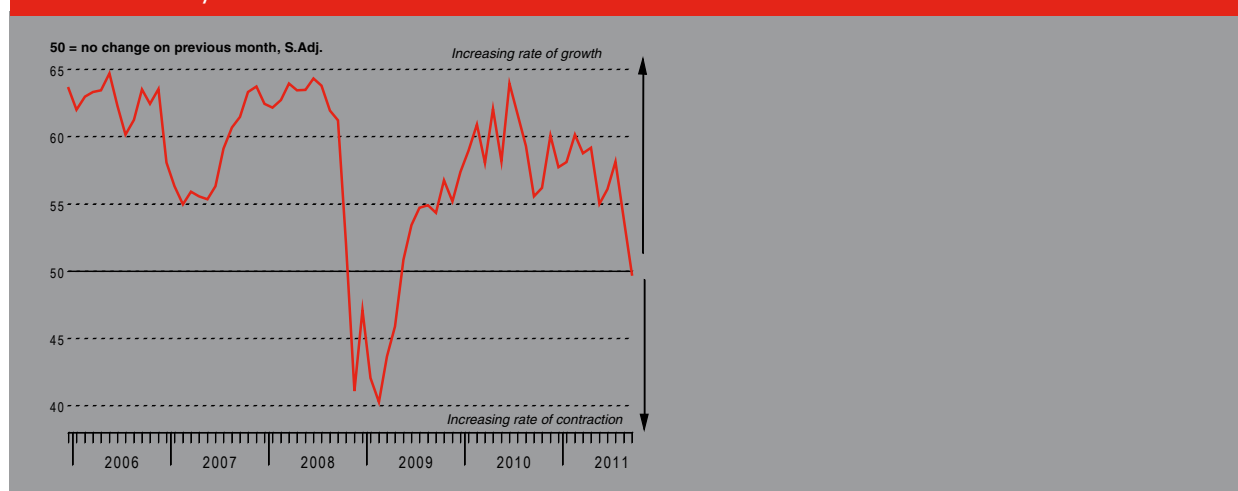
In line with slower new business growth and the stagnation in activity, employment was reported to have declined for a third consecutive month. Anecdotal evidence also suggested that unfulfilled wage requests from staff had led to some resignations. However, reflective of the marginal rate of job cuts, the vast majority of panellists indicated that employment was unchanged since August.

Higher wage bills and increased prices for food and fuel were cited as the main drivers of a further rise in input costs during September. While the rate of input price inflation slowed since August, it remained marked and slightly stronger than the long-run trend. Input costs have now increased for two-and-a-half years.

Prices charged by Indian service providers rose for an eleventh month in succession, as companies aimed to pass on higher input costs. The rate at which output prices increased was slightly weaker than that registered in August, but outpaced that of input costs for the first time in the series history.

Indian service companies were optimistic in September that activity would rise over the next year, supported by marketing initiatives and the high quality of services provided. However, the degree of positive sentiment fell for the third month running and was below the historical average for the series.

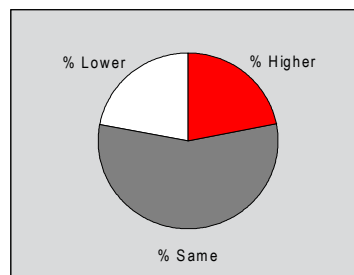
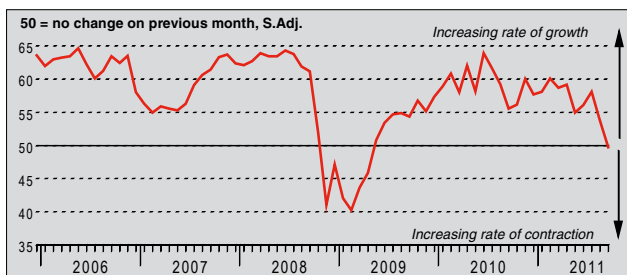
Business Activity Index



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

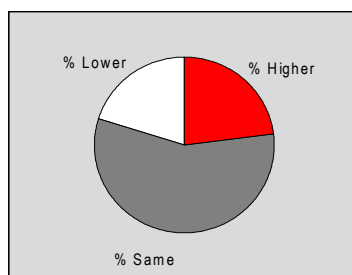
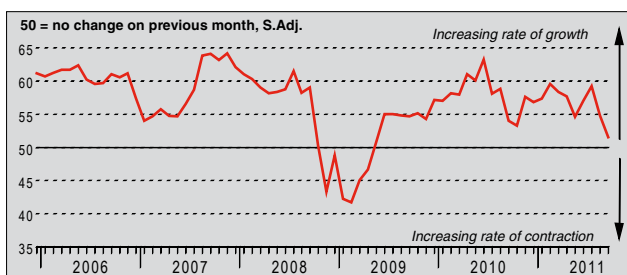
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index posted negligibly below the 50.0 no-change threshold in September, signalling a broadly consistent level of Indian service sector output compared with August. This ended a 28-month sequence of growth. Panellists indicated that a weaker increase in new business had led to the broadly unchanged level of activity. Performance was mixed at the sub-sector level. Hotels & Restaurants saw the sharpest rise in output, while Financial Intermediation registered the fastest decline (albeit this was only modest).

New Business Index

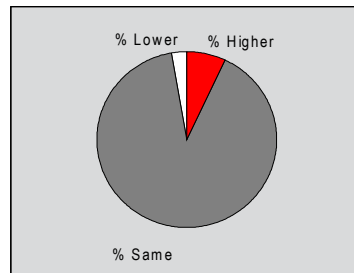
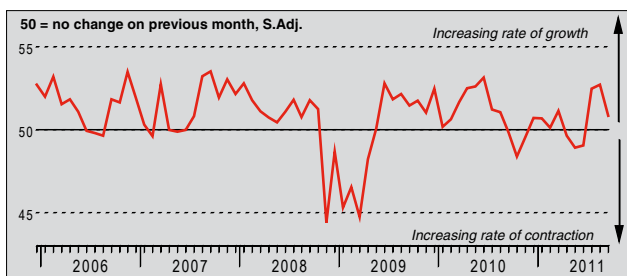
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



September data signalled a modest increase in new business received by Indian service providers, extending the sequence of sustained expansion to 29 months. Approximately 23% of respondents noted a higher level of new work intakes. However, the rate of growth slowed for a second month running and was the weakest since May 2009. Anecdotal evidence suggested that this reflected softening economic conditions that had dampened demand. Five of the six sub-sectors monitored recorded an expansion in new business (Financial Intermediation registered a contraction), the strongest of which was in Post & Telecommunications.

Outstanding Business Index

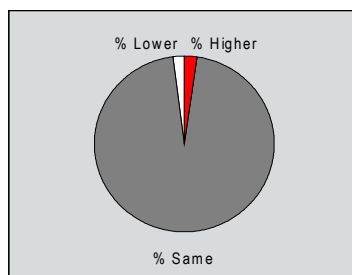
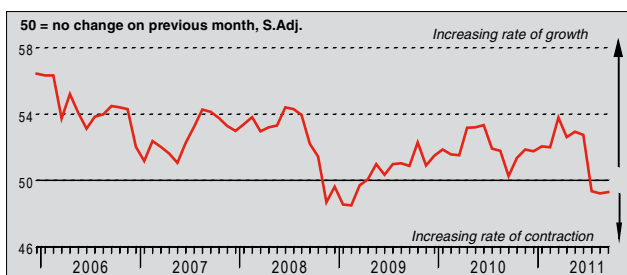
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Indian service providers reported an increase in outstanding business during September. However, the rate of accumulation was marginal and in line with the long-run series average, with the majority of panellists (approximately 90%) indicating that levels of work-in-hand were unchanged since August. Where a rise in outstanding business was recorded, a further increase in new work intakes was cited as the main contributor. Renting & Business Services saw the sharpest rise in work-in-hand, while Transport & Storage was the only sub-sector to record a decline.

Employment Index

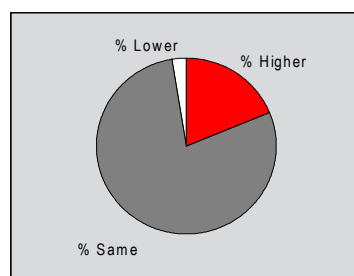
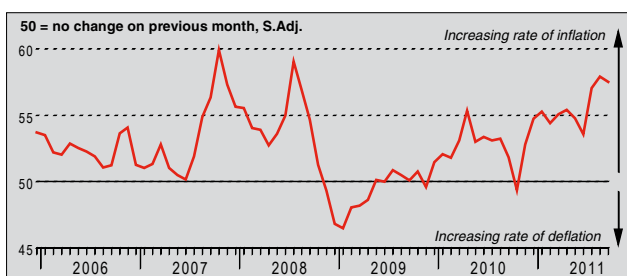
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Indian service sector fell for a third successive month in September. The rate of job cuts has been marginal and broadly unchanged over that period. Highlighting this, the vast majority of respondents (approximately 96% in September) noted that staffing levels were consistent with those seen in August. Those panellists indicating a reduction in employment commented that this reflected slower new business growth and resignations resulting from unfulfilled requests for higher wages from workers.

Prices Charged Index

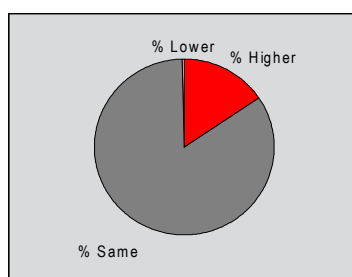
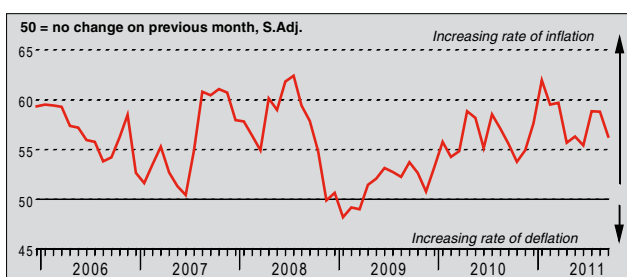
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Service companies in India reported a marked increase in their prices charged during September. The rate of output price inflation was slightly weaker than that registered in August, but faster than that recorded for costs for the first time in the series history. Approximately 19% of respondents indicated a higher level of charges, attributing this to a further rise in input costs. Overall, charge inflation has been recorded in each month since November 2010. All six sub-sectors monitored recorded an increase in output prices, the strongest of which was in Hotels & Restaurants.

Input Prices Index

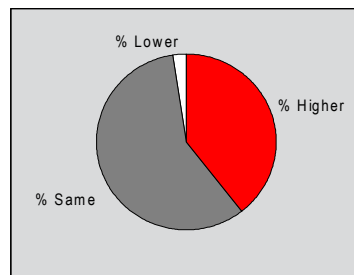
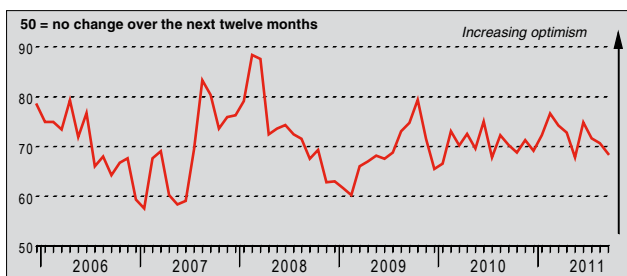
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



September data signalled a marked rise in input costs faced by Indian service providers. Input price inflation had now been recorded for two-and-a-half years. Anecdotal evidence suggested that higher wage bills and food and fuel prices were the main contributors to the latest increase in costs. A marked rise in input prices was seen across all six sub-sectors. The sharpest increase was registered by Hotels & Restaurants. With approximately 16% of total respondents recording a rise in costs, the rate of inflation slowed marginally since August, but remained slightly faster than the long-run trend.

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 remained optimistic in September that business activity would increase over the next 12 months. New marketing initiatives and the high quality of services provided are expected to support growth of new orders, and therefore activity. However, the degree of positive sentiment decreased for a third consecutive month and was below the historical average. At a sub-sector level, panellists operating in the Hotels & Restaurants category were the most optimistic of those surveyed. Financial Intermediation companies were among the least confident.

Notes on the Data and Method of Presentation

The India Services *PMI*TM 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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