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HSBC India Services PMI™

Business activity in Indian service sector falls slightly in October

Key findings:

- Output decreases as slower new business growth and strikes impact negatively on activity
- Inflationary pressures ease
- Service providers remain optimistic regarding future business expectations

A further slowdown in new business growth and negative impacts of strike action in October led to lower Indian service sector activity for a second month running. Input costs and output prices both rose at weaker rates in October, while panellists were confident that activity would rise over the next 12 months. Employment was nonetheless slightly down in the latest survey period.

October PMI™ survey data signalled a reduction of activity in the Indian service sector, following near-stagnation in the previous survey period. This was highlighted by the headline HSBC Business Activity Index posting 49.1, down from September's 49.8. However, as the index was only slightly below the 50.0 no-change threshold that separates expansion from contraction, the reduction in activity signalled was marginal.

Indian service providers reported an increase in new work intakes during October, extending the sequence of sustained growth to two-and-a-half years. However, the rate of new business expansion was marginal and the slowest since May 2009, with panellists generally noting weaker improvements in client demand.

In spite of a further rise in new business and a reduction in activity, backlogs of work were little changed during October. This ended a three-month sequence where levels of outstanding business had increased, and indicated that current

levels of output were sufficient to cope with the latest rise in new work intakes.

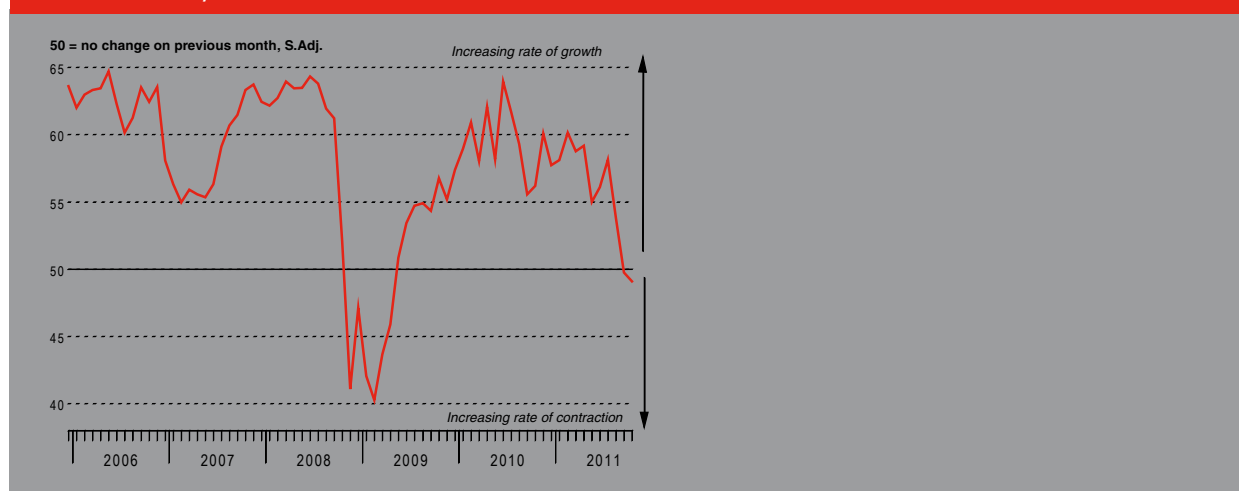
October data signalled a fourth consecutive monthly reduction in employment. The rates at which staffing levels have declined have been marginal and broadly consistent over that period. Where job cuts were indicated, this was attributed to weaker new business growth and natural attrition. Nonetheless, the vast majority of respondents noted that employment was unchanged since September.

Input prices faced by service providers in India increased solidly during October, driven by higher wage bills and petrol costs. However, the rate of input price inflation slowed to a 12-month low, and was below the long-run series trend.

Efforts to pass on higher costs to clients resulted in a further increase in prices charged by Indian service providers. The rate of output price inflation moderated since September, but remained strong in the context of historical data. Furthermore, the pace at which charges rose was faster than that of input prices for a second successive month.

Panellists remained optimistic in October that business activity would rise over the next year, supported by investment in marketing initiatives. However, the degree of positive sentiment was lower than the historical average, with concerns about the economic outlook acting as a drag on confidence.

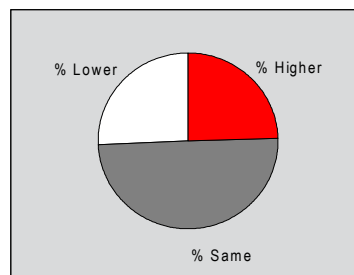
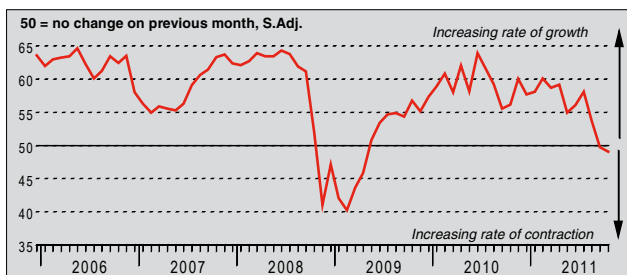
Business Activity Index



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

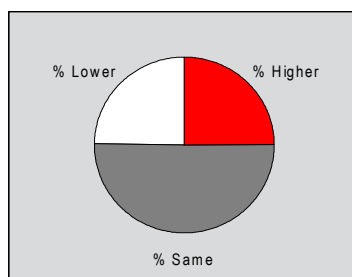
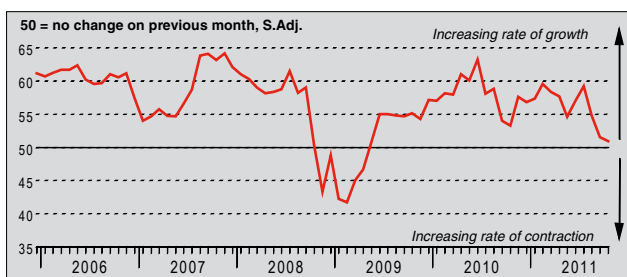
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



October data signalled a reduction in Indian service sector business activity. However, with approximately 26% of respondents registering a contraction compared with around 25% noting an increase, the decrease in activity was only marginal. Where a decline in output was reported, this was generally attributed to weaker new order growth and strike action that had impacted negatively on output. Four of the six sub-sectors monitored posted reductions in activity, the steepest of which was in Renting & Business Services.

New Business Index

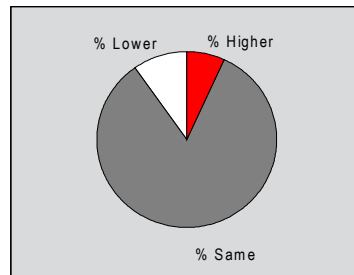
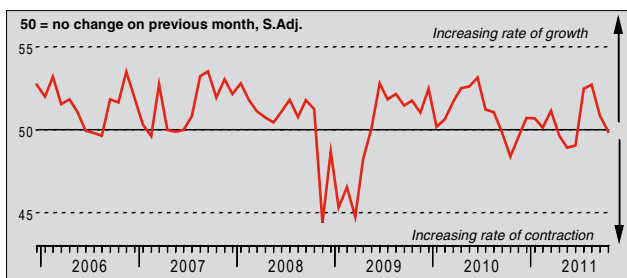
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Indian service providers reported an increase in new business received during October. New business expansion has now been recorded in each month over the last two-and-a-half years. However, the rise was only marginal, with the rate of growth slowing for a third successive month to the weakest since May 2009. At a sub-sector level, Hotels & Restaurants recorded the sharpest rise in new work, while Financial Intermediation and Other Services registered slight falls.

Outstanding Business Index

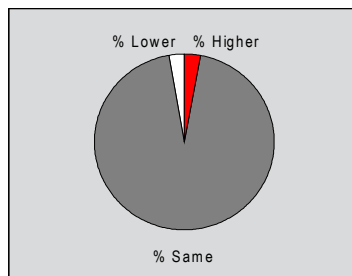
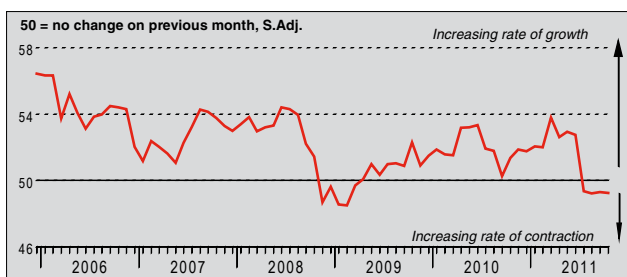
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted fractionally below the 50.0 no-change threshold in October, signalling a negligible reduction in backlogs of work at service providers in India. This ended a three-month sequence where levels of work-in-hand had increased. In line with the broadly unchanged level of outstanding business, the majority of respondents (approximately 83%) indicated that backlogs were unmoved since September.

Employment Index

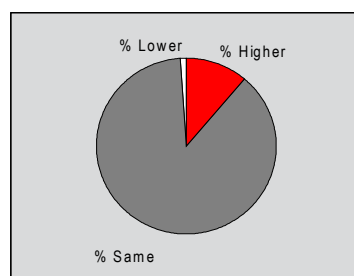
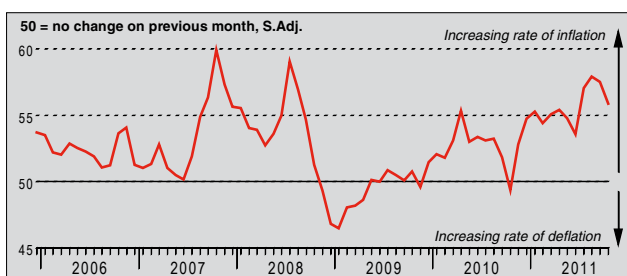
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Indian service sector fell during October. Panellists noting a reduction in staffing levels attributed this to weaker new order growth and natural attrition. Post & Telecommunications recorded the sharpest cut in jobs at a sub-sector level. However, the overall rate of decrease was marginal and has been little changed over the last four months, with the vast majority of respondents (approximately 94% in October) noting no change from the previous survey period.

Prices Charged Index

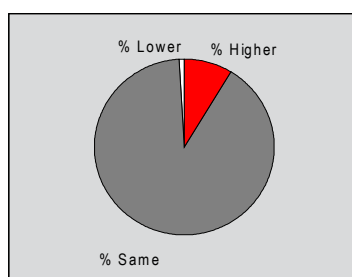
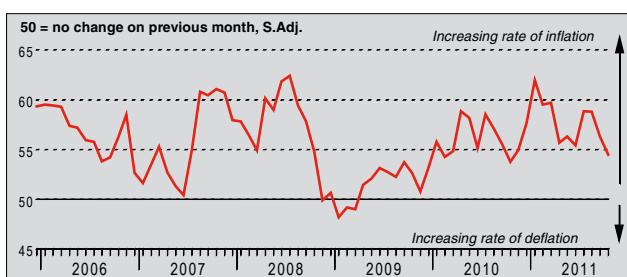
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service providers reported a marked rise in their prices charged during October, with inflation now recorded for 12 consecutive months. Panellists that recorded an increase since September cited higher input costs as the main driver. All six sub-sectors monitored noted a rise in output prices, with increases strongest for Hotels & Restaurants and Transport & Storage. Overall, the rate of output price inflation moderated since September, but remained strong in the context of historical data.

Input Prices Index

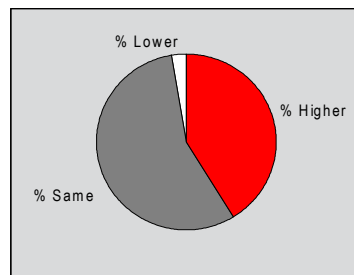
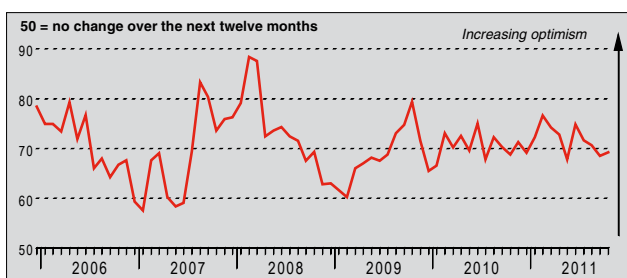
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



October data signalled a solid increase in input prices faced by Indian service companies. Anecdotal evidence suggested that higher wage bills and petrol prices were the main contributors to cost inflation. However, the extent of the latest rise in input prices was the weakest since October 2010, and below that of charges for a second successive month. All six sub-sectors monitored recorded a slowdown in cost inflation in the latest survey period.

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 providers in India were optimistic in October that business activity would increase over the next 12 months. Companies operating in the Post & Telecommunications sector were the most confident. With approximately 41% of respondents expecting activity to rise, the degree of positive sentiment was marginally stronger than in September, but remained slightly below the long-run series trend. Panellists commented that uncertainties regarding the economic outlook had acted as a drag on confidence.

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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