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## HSBC India Services PMI™

Indian service sector business activity increases at strongest rate in five months in December

### Key findings:

- New business rises markedly, supporting further growth of output
- Employment increases for first time in six months, albeit only marginally
- Inflationary pressures intensify

Indian service sector activity expanded for a second successive month in December. The rate of growth was the fastest since July, but remained below the historical series average. A stronger rise in new business supported the acceleration in output growth. Employment increased, ending a five-month period of job cuts, with backlogs of work also accumulating slightly. Meanwhile, both input costs and output prices rose at faster rates in December, with inflation running above the long-run trend in both cases. Confidence strengthened slightly since November, but remained much lower than levels of optimism signalled earlier in the year.

The headline HSBC Business Activity Index posted 54.2 in December, up from 53.2 in November. Posting above the 50.0 no-change threshold that separates growth from contraction, the latest reading pointed to a rise in activity in the Indian service sector that was stronger than in the previous survey period. However, the rate of growth remained below the long-run series average.

New business received by Indian service companies increased for the thirty-second consecutive month in December. The rate of expansion was marked, having strengthened since November. Panellists commented that improved client demand and new customer wins had led to the rise in new work intakes.

Backlogs of work at service companies in India were reported to have increased during December. This followed two months where levels of outstanding business had remained broadly

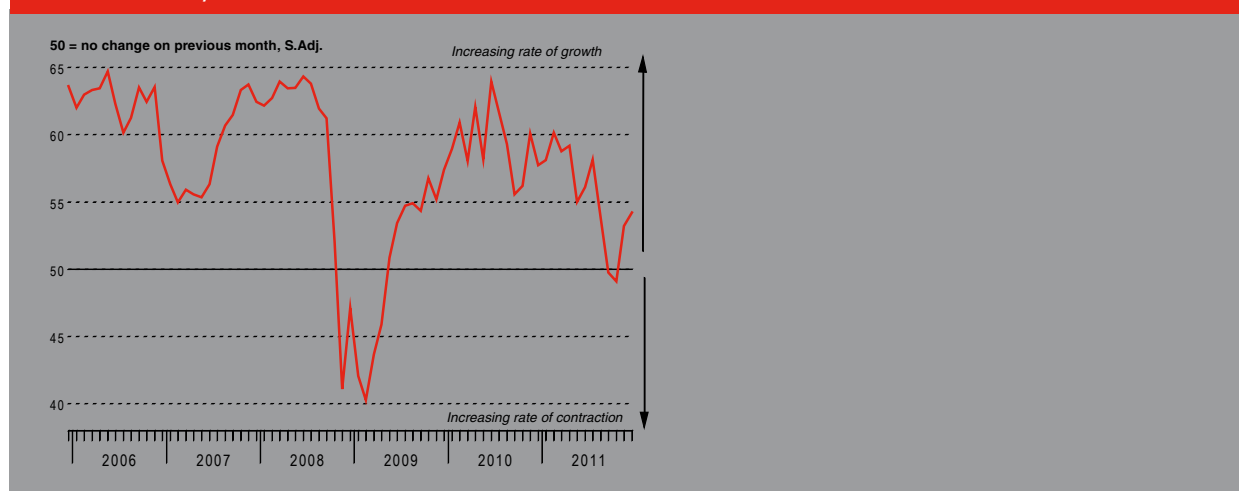
unchanged. Anecdotal evidence suggested that the rise in new work intakes, as well as some delayed payments from clients, had contributed to the accumulation of backlogs.

December data signalled an increase in employment in the Indian service sector, the first rise in staffing levels since June. Where job creation was reported, this was attributed to higher levels of new work and activity. However, the increase in employment was only marginal, with the vast majority of respondents indicating no change in staffing levels since November.

Inflationary pressures intensified during December, with both input costs and output prices rising at faster rates. Panellists cited higher wage and fuel bills as the main drivers of input cost inflation. The rise in input prices, in turn, led to an increase in charges. Both input cost and output price inflation were elevated in the context of historical data.

Indian service providers were optimistic in December that activity would rise over the next 12 months. Growth of new business, supported by improved economic conditions and new marketing initiatives, are expected to drive the expansion in activity. While confidence strengthened slightly since November, it remained below the long-run trend. Downside risks to new business growth due to potential worsening economic conditions and increased competition were cited as the main factors weighing on positive sentiment.

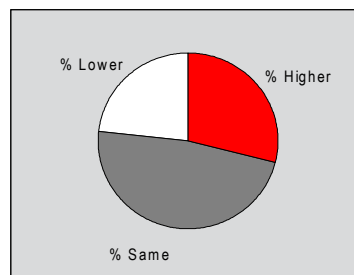
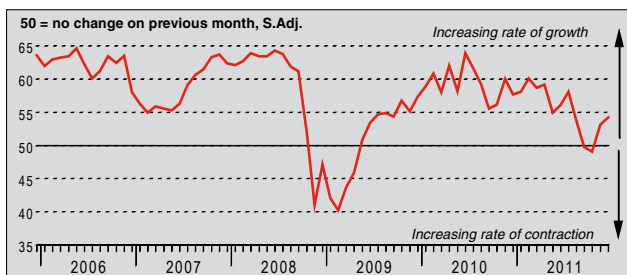
### Business Activity Index



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

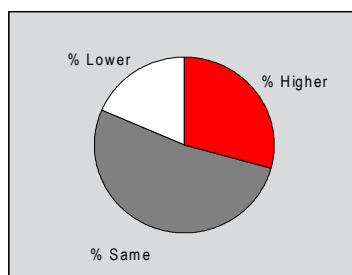
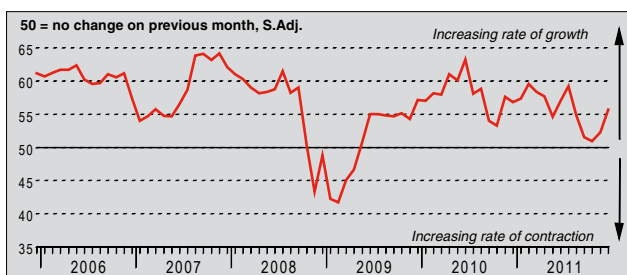
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



December data signalled a solid rise in business activity in the Indian service sector. Panellists commented that the latest expansion in activity reflected a further rise in new business received. Hotels & Restaurants and Financial Intermediation were the two sub-sectors seeing the fastest expansions. Overall, this was the second successive monthly increase in output, with December's rate of growth the strongest since July. However, despite being solid, the latest rise in activity was below the historical average for the series.

## New Business Index

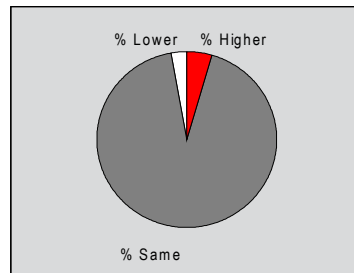
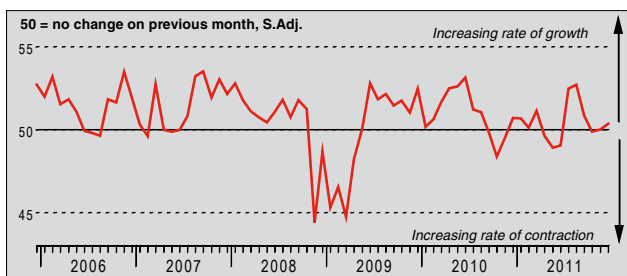
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Indian service providers reported a marked rise in new business received during December. Approximately 29% of respondents registered an increase in new work intakes, compared with around 19% that signalled a decline. The overall expansion was the fastest in five months. Anecdotal evidence suggested that new client wins and improved customer demand had contributed to growth of new business. At the sub-sector level, five of the six monitored areas recorded an increase in new work intakes.

## Outstanding Business Index

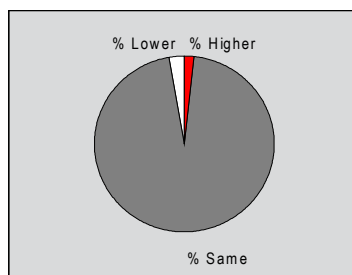
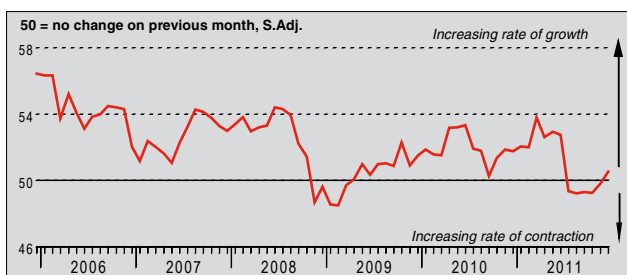
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at service providers in India increased in December, following two months where levels of work-in-hand had remained broadly unchanged. Where an accumulation of backlogs was reported, this was attributed to a rise in new business and delayed payments from clients. Companies in the Renting & Business Services sub-sector saw the sharpest increase in work-in-hand. However, the overall rise in backlogs was only slight, with the vast majority of respondents (approximately 93%) indicating no change in outstanding business since November.

## Employment Index

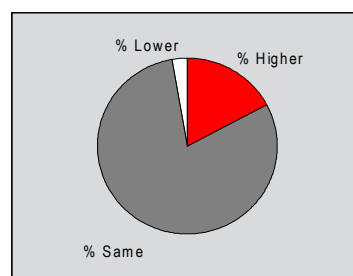
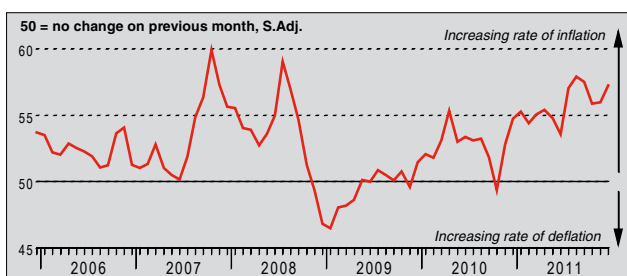
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index posted above the 50.0 no-change threshold in December, signalling an increase in staffing levels at service companies in India. This ended a five-month period of job cuts. Where a rise in headcounts was registered, increased new business was cited as the main contributor. However, the vast majority of panellists (approximately 96%) noted that employment was unchanged since November.

## Prices Charged Index

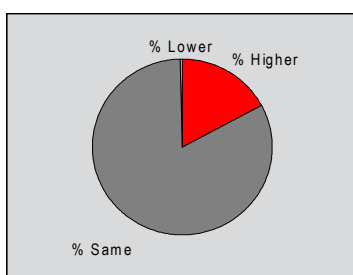
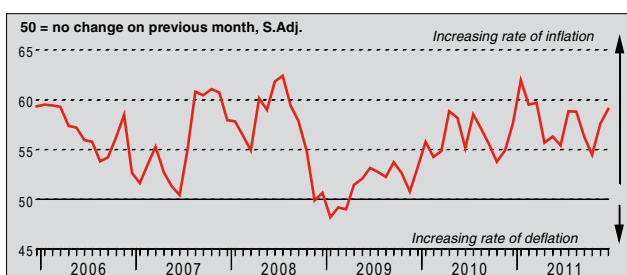
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by service companies in India increased markedly in December. Panellists commented that charges were increased primarily in response to higher input costs. All six sub-sectors monitored recorded a rise in output prices, the sharpest of which was in Hotels & Restaurants. The overall rate of charge inflation accelerated for the second consecutive survey period, and was strong in the context of historical data. Output prices have now risen for 14 consecutive survey periods.

## Input Prices Index

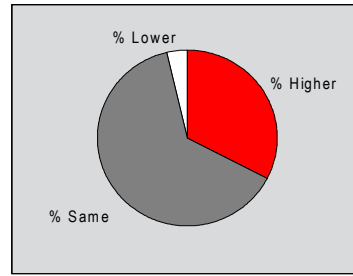
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



December data signalled a strong rise in input prices faced by service providers in India, with increases now recorded in each month since April 2009. Moreover, the rate of cost inflation accelerated for a second month running, to the fastest since March, and was above the long-run series trend. Approximately 17% of respondents noted higher input prices since November, citing higher wages and fuel costs as the main drivers of inflation. Companies operating in the Hotels & Restaurants sub-sector saw the strongest increase in input prices.

## 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 companies were optimistic in December that activity would increase over the next year. Growth is expected to be supported by higher new work intakes, which will be driven by marketing initiatives and improved economic conditions. All six sub-sectors monitored were confident about business prospects, with companies in the Post & Telecommunications category projecting the strongest expansion. With just under one-third of total panellists forecasting a rise in output, positive sentiment increased slightly since November, but remained below the levels of optimism signalled earlier in the year and was weak in the context of historical data.

## 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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