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HSBC India Services PMI™

Marked growth of Indian service sector business activity at start of 2012

Key findings:

- Faster expansion of new business supports further rise in output
- Staffing levels increase again, but only slightly
- Charges rise at strongest rate in five months, while cost inflation moderates

January data showed a third successive monthly increase in Indian service sector output. Moreover, the rate of expansion was the fastest in this period. Accelerated growth of new business was the main driver of the stronger increase in business activity. Nonetheless, employment rose only slightly, with backlogs falling marginally. This suggested that companies were able to absorb the latest increase in new business. Meanwhile, input cost inflation remained marked, but eased to a three-month low. However, charges rose at their fastest rate since August 2011.

The headline HSBC Business Activity Index posted above the 50.0 no-change threshold in January that separates expansion from contraction. The latest reading of 58.0 increased from December's 54.2 to signal a marked rate of growth that was the fastest in six months. January's expansion in output was broadly in line with the long-run series trend.

Indian service providers reported a marked rise in new business received during January. The rate of growth accelerated solidly since December to the strongest since July 2011. Panellists commented that a general improvement in market conditions had led to a rise in client demand. Many companies also noted that new customers had been won. The latest increase in new work intakes extends the current sequence of growth to 33 months.

Despite the sharp rise in new business, backlogs of work fell during January. However, the rate of depletion was only marginal. Highlighting this, the majority of respondents indicated that levels of outstanding business at their companies were unchanged

since December. This indicated that the increase in activity had been sufficient to cope with the growth in demand.

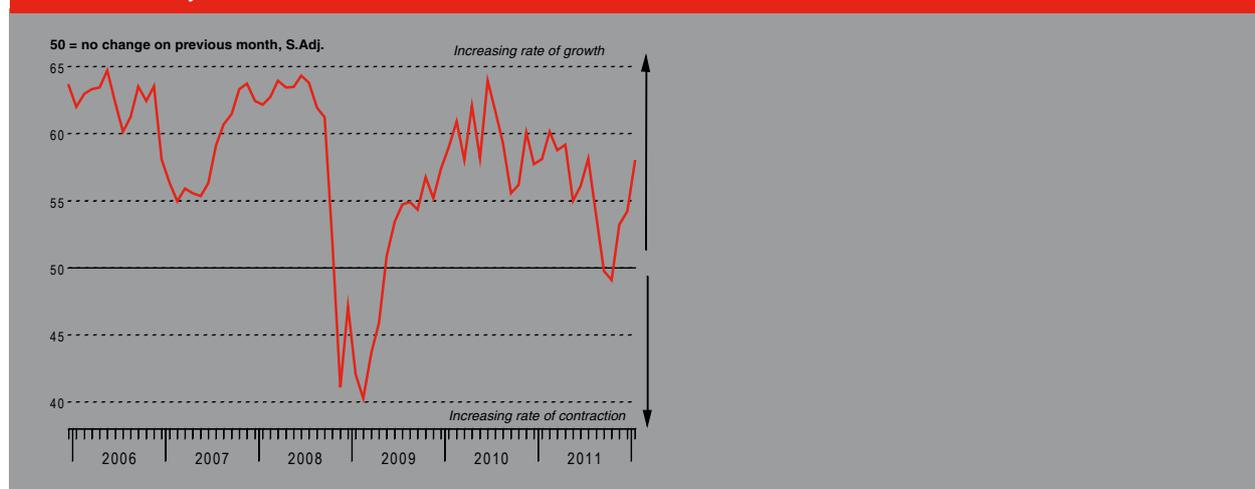
January data signalled a slight increase in employment in the Indian service sector. This was the second successive month where only a marginal rise in staffing levels was indicated (following five months of job cuts), reinforcing the notion that companies had adequate resources to meet the latest increase in new work intakes. Where job creation was indicated, this was attributed to an expansion in new business.

Indian service providers reported a further marked rise in input costs during January. Higher salaries were predominantly cited as the main driver of input price inflation, although increased costs of food and petrol were also noted. The latest rise in input prices was the weakest in three months, but was still marginally faster than the long-run series average.

Prices charged by service companies in India rose at an accelerated rate in January, despite the moderation of input cost inflation. The increase in output prices was the fifteenth in consecutive months, and strong in the context of historical data.

Indian service providers were optimistic in January that business activity would increase over the next year. Growth is expected to be supported by improving market conditions and a rise in promotional activity. Moreover, the degree of positive sentiment was the highest since July 2011, with the relevant index posting its largest one-month gain in seven months.

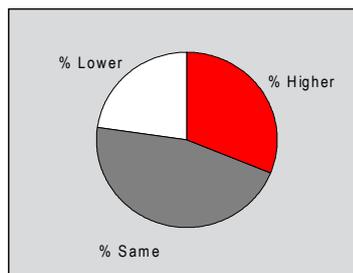
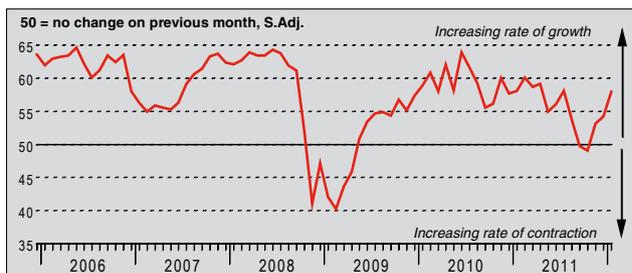
Business Activity Index



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

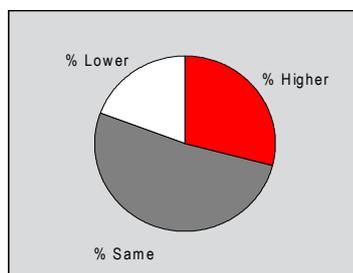
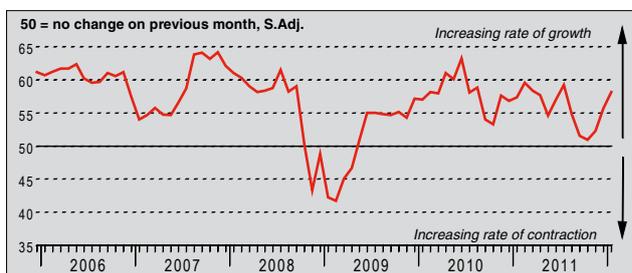
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Indian service providers reported a marked rise in business activity during January. The rate of output growth accelerated for a second successive survey period to the strongest since July 2011. Approximately 31% of panellists noted a higher level of activity at their companies, attributing this to a rise in new business received and a general improvement in market conditions. Of the six sub-sectors monitored, Hotels & Restaurants and Financial Intermediation saw the sharpest increases in output. Overall, activity has now expanded in each of the last three months.

New Business Index

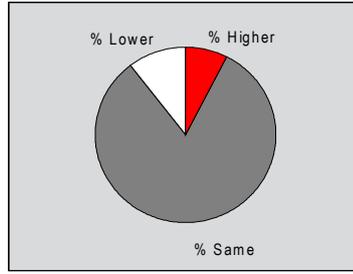
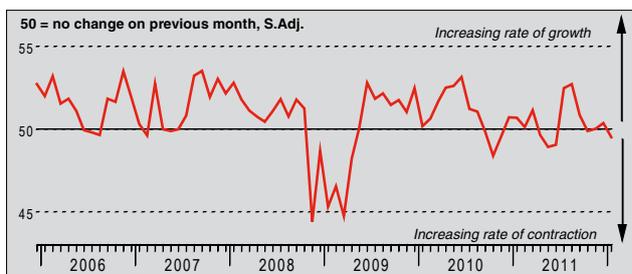
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



January data signalled a rise in new business received by Indian service providers, extending the sequence of sustained growth to 33 months. Anecdotal evidence suggested that growth of new work intakes was supported by strengthening market conditions. This helped to increase client demand, with many panellists noting new customer wins. The latest expansion of new business was the strongest in six months. All six-sub-sectors monitored recorded an increase in new work intakes. Continuing the recent trend, the Hotels & Restaurants sub-sector saw the fastest rise in new business.

Outstanding Business Index

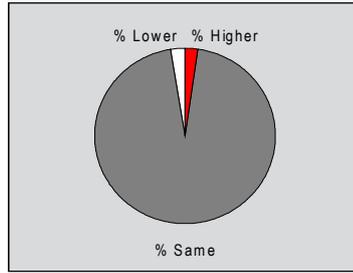
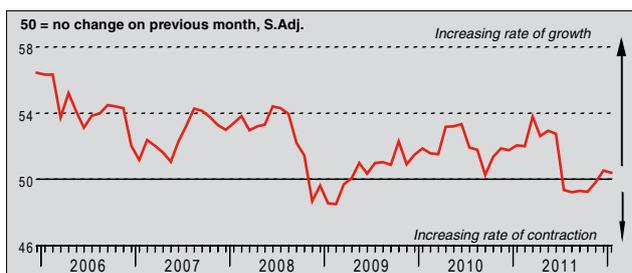
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at service companies in India was reported to have decreased during January. However, the rate of depletion was only slight, with the majority of respondents (approximately 82%) indicating no change in backlogs from the previous survey period. Data suggested that, on average, the latest rise in output was sufficient to cope with the increase in new business received. The Other Services sub-sector registered the sharpest decline in backlogs of work of the six areas monitored.

Employment Index

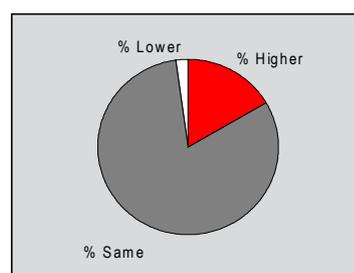
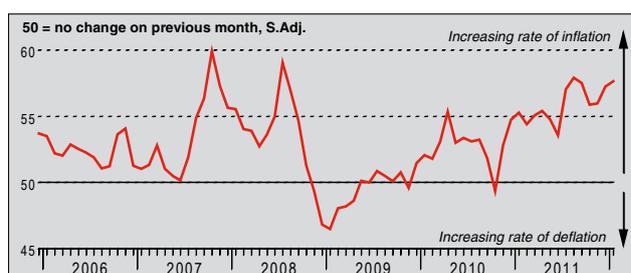
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index posted fractionally above the 50.0 no-change threshold in January, signalling only a slight increase in employment in the Indian service sector. Highlighting this, the vast majority of panellists (approximately 95%) indicated that staffing levels at their companies were unchanged since December. At the sub-sector level, three areas saw small rises in employment, led by Post & Telecommunication, while the remaining three sectors recorded slight contractions. Where an increase in staffing levels was reported, this was attributed to higher output requirements.

Prices Charged Index

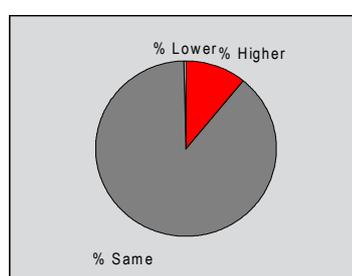
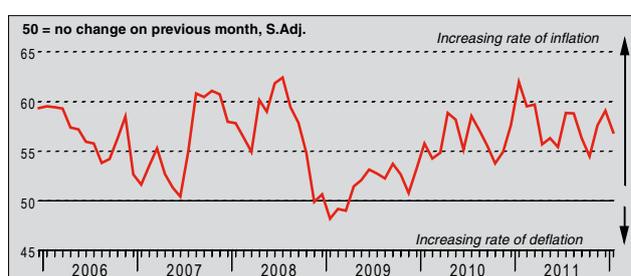
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Indian service providers rose again in January, extending the sequence of sustained output price inflation to 15 months. Panellists commented that the latest increase in charges was driven by a further rise in input costs. All six sub-sectors monitored registered an increase in output prices in January, the fastest of which was in Hotels & Restaurants. The overall rate of charge inflation was the fastest since August 2011, and remained strong in the context of historical data.

Input Prices Index

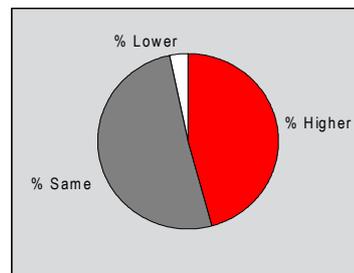
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



January data signalled a marked rise in input costs faced by service companies in India. Panellists cited higher wage bills as the main driver of input price inflation. However, the prices of certain food items and petrol were also noted to have increased. At the sub-sector level, Hotels & Restaurants saw the strongest rise in costs. While the overall rate of input price inflation slowed from December's nine-month high, it remained marked and slightly faster than the long-run series trend. Input costs have increased for 34 consecutive 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 confident in January that business activity would increase over the next 12 months. Growth of output is expected to be supported by improving market conditions and a rise in promotional activity. With approximately 46% of panellists anticipating higher activity, the Business Expectations Index posted its largest one-month gain since June 2011. Furthermore, the current level of optimism, which was at a six-month high, was slightly stronger than the long-run series trend. Post & Telecommunications companies were the most confident of those surveyed.

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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