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HSBC India Services PMI™

Marked rise of Indian service sector business activity, albeit at slower rate

Key findings:

- Expansion of activity weakens, despite further sharp increase in new business
- Employment broadly unchanged
- Inflationary pressures ease

February data showed a marked increase in Indian service sector output, extending the sequence of sustained growth to four months. The rate of expansion slowed, but remained the second-strongest since July 2011. Growth of new business was marked and unchanged from the previous survey period. Subsequently, backlogs of work rose, albeit slightly. Employment was little changed on the month. Meanwhile, input cost inflation slowed slightly, and the increase in charges eased to an eightmonth low.

The headline HSBC Business Activity Index posted above the 50.0 no-change threshold in February that separates expansion from contraction. The latest reading of 56.5 fell from January's 58.0. Nonetheless, this signalled a marked rise in Indian service sector output, with expansion now sustained for four successive months.

New business received by Indian service providers was reported to have increased markedly during February. The rate of growth was unchanged from the previous survey period. Panellists commented that new client wins had led to the rise in new business. Some respondents also noted that ongoing improvements in market conditions and the good quality of services provided had also helped to boost new work intakes.

Reflective of the unchanged rate of new business growth and the moderated expansion of activity, backlogs of work were reported to have increased during February. However, the accumulation was only slight, with the majority of respondents indicating no change in levels of outstanding business from the previous

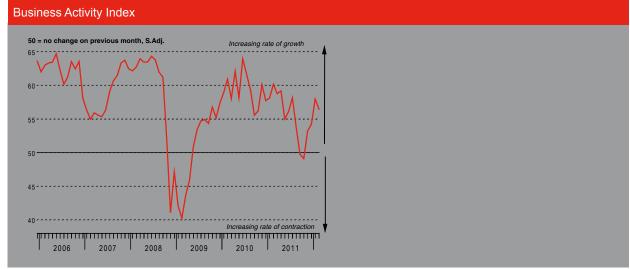
survey period. This therefore suggested that companies were largely able to accommodate the latest increase in new work intakes.

February data signalled that employment in the Indian service sector was little changed on the month. This again highlighted that staffing levels were sufficient to meet current levels of activity. This followed two months where employment had increased marginally.

Input prices faced by service providers in India increased for a thirty-fifth consecutive month in February. Higher wage bills were predominantly cited as the main driver of cost inflation. The latest rise in input prices was slightly weaker than in January, but remained marginally stronger than the long-run trend.

Indian service providers reported a further rise in their prices charged during February. Anecdotal evidence suggested that the increase in output prices reflected the necessity to pass on higher costs to clients. However, the rate of charge inflation slowed to an eight-month low, with panellists commenting that the need to remain competitive had limited the extent of the latest increase in output prices.

Service companies in India were optimistic in February that activity would rise over the next year. Higher new work intakes, supported by marketing initiatives and the good quality of services provided, alongside ongoing improvements in market conditions are expected to boost activity. Confidence was at an eight-month high in the latest survey period.



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.

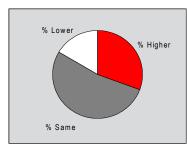




Business Activity Index

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.



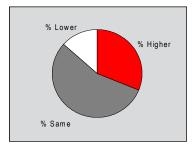


February data signalled a marked rise in output in the Indian service sector, extending the sequence of sustained growth to four months. Approximately 31% of panellists noted a higher level of activity, attributing this to a further rise in new business. Companies in the Financial Intermediation subsector registered the sharpest increase in output. However, the overall expansion in activity slowed since January and was marginally weaker than the long-run series trend. Respondents indicating a reduction in output commented that this reflected lower new work intakes at their companies, partly due to increased competition, and higher operating costs.

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.



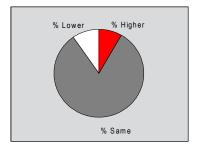


Indian service providers reported a rise in new business received during February. The rate of growth was marked and unchanged from the previous survey period. Anecdotal evidence suggested that a rise in new clients had led to the latest increase in new work intakes. Some panellists also noted that improving market conditions and the good quality of services provided had helped to boost new business. At a sub-sector level, five of the six monitored registered a rise in new work intakes, with Other Services the only sub-sector to record a decline. Overall, expansion of new business has now been recorded in each month since May 2009.

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.

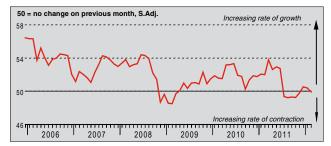


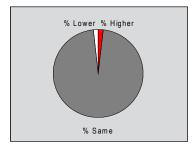


The seasonally adjusted Outstanding Business Index posted fractionally above the 50.0 no-change threshold during February, indicating a slight rise in backlogs of work at service providers in India. This compared to a marginal depletion recorded in January, and continued the recent broadly stable trend in levels of work-in-hand. Where an increase in outstanding business was indicated, this was attributed to the rise of new work inflows outpacing the increase in activity.

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).



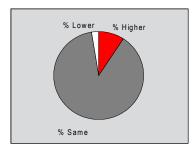


Staffing levels in the Indian service sector were broadly unchanged in February, as indicated by the seasonally adjusted Employment Index posting fractionally below the 50.0 no-change threshold. Highlighting this, the vast majority of respondents (approximately 96%) noted that staffing levels were unchanged at their companies since January. Subsequently, all six sub-sectors monitored posted only marginal movements in employment. The little change in overall staffing levels followed two survey periods where slight increases had been registered.

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.



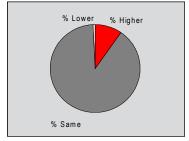


February data signalled a solid rise in prices charged by service providers in India. Panellists noting an increase in output prices commented that this reflected the need to pass on higher costs to clients. The strongest rises were recorded in the Post & Telecommunications and Renting & Business Services sub-sectors. The overall rate of charge inflation slowed to an eight-month low in February, as the increase in output prices was constrained at some companies in order to remain competitive. Nonetheless, the latest increase in charges remained above the long-run series trend. Output prices have now increased for 16 successive 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.



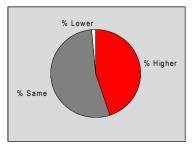


Input prices faced by service companies in India continued to rise in February, extending the sequence of sustained increases to 35 months. Higher wage bills were predominantly cited as the main driver of cost inflation. At the sub-sector level, Hotels & Restaurants saw the sharpest rise in input prices, although all six monitored categories registered an increase. The rate of overall cost inflation eased for a second month running but remained slightly faster than the historical series average.

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 optimistic in February that activity would rise over the next year. Approximately 45% of respondents were positive regarding business expectations, with output expected to be boosted by ongoing improvements in market conditions and higher new work intakes (supported by marketing initiatives and the good quality of services currently provided). Confidence strengthened slightly since January, rising to an eight-month high. Furthermore, the degree of positive sentiment was slightly above the long-run trend. Panellists in all six sub-sectors monitored expect an increase in output, with those in the Post & Telecommunications category the most optimistic.

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 \times 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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