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HSBC India Services PMI™

Growth of Indian service sector activity remains muted

Key findings:

- Activity growth sustained
- Job creation remains marginal
- Business optimism highest in ten months

Latest data from HSBC pointed to a further expansion of Indian service sector activity, largely in response to higher intakes of new business. Looking ahead, business confidence jumped to the highest in ten months amid reports of a brighter outlook for the wider economy. Despite this, companies remained hesitant with regards to hiring, with overall jobs growth remaining marginal in April. On the price front, service providers continued to raise their selling prices at a marked rate, mainly reflecting efforts to pass on higher costs to clients.

After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 52.8 in April, up slightly from 52.3 in March, highlighting a continued expansion of service sector activity in India. However, the latest index reading was much lower than the long-run trend for the survey (57.6). Anecdotal evidence provided by survey respondents suggested that activity growth reflected new business wins. Of the six monitored sectors, only Transport & Storage recorded a reduction in business activity during the month.

The level of incoming new business placed at Indian service providers rose in April, extending the current period of expansion to three years. Growth of new orders was marked, albeit slower than those rates seen in the first two months of 2012. Companies mentioned that higher customer numbers had led to the rise in new business. There were also reports of ongoing improvements in market conditions and good quality of services.

Despite another month of new order growth, Indian service providers continued to report little pressure on their operating

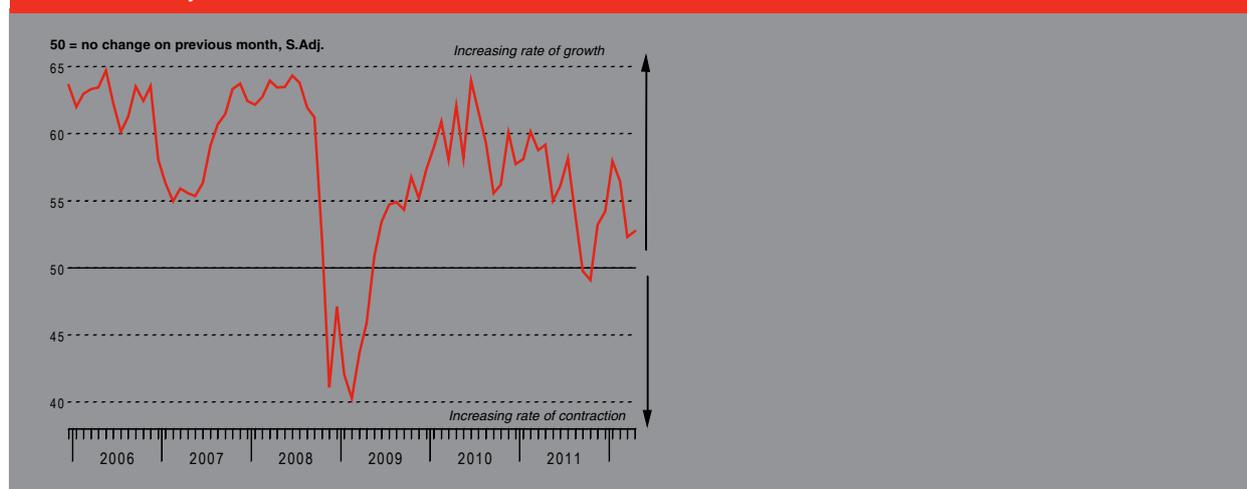
capacity, with volumes of work-in-hand (but not yet completed) falling marginally during the month. Meanwhile, staff numbers in the sector rose for a second successive month in April, albeit at a marginal rate.

Average input costs faced by service providers increased markedly in April, with the pace of inflation in line with the 2012 trend to date. Higher input prices have now been recorded for 37 months in succession. Service sector companies that mentioned a rise in average cost burdens generally linked this to increased labour-related costs.

Indian service providers continued to pass on higher costs to clients through increased output charges in April. The rate of output price inflation was solid, and unchanged since the preceding month. The latest increase in average tariffs was the eighteenth in as many months.

Service providers again expressed optimism regarding the one-year outlook for business activity, with around 54% of survey respondents anticipating activity levels to be higher in 12 months' time. This compared with only 7% that expect a reduction. As a result, the degree of positive sentiment jumped to the highest in 10 months. Panellists widely reported that better economic conditions would lead to higher customer numbers over the coming 12 months. Expectations of new business wins were also mentioned by a number of survey participants. Business confidence was recorded across all six monitored sectors, with Post & Telecommunications recording the strongest level of optimism.

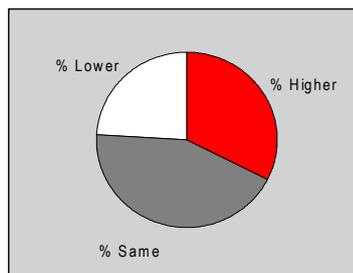
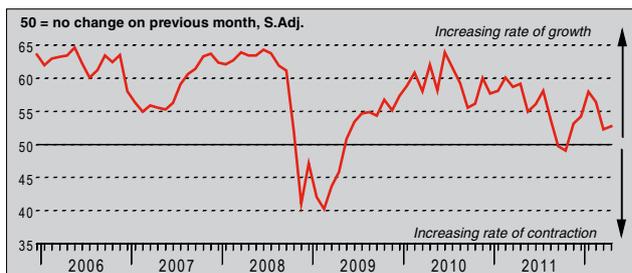
Business Activity Index



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

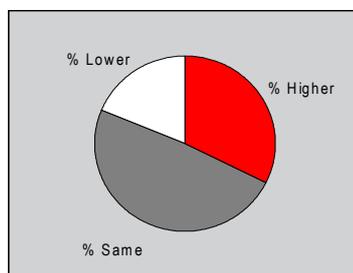
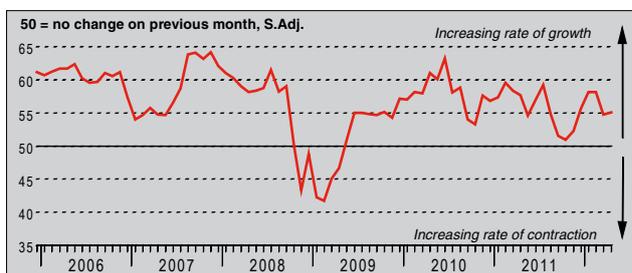
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Indian service sector continued to rise during April. Almost 33% of survey participants reported an increase in activity at their units, compared with 24% that noted a decline. Companies widely attributed growth of services output to new business wins. The rate of expansion accelerated for the first time since January, but remained modest nonetheless. Indeed, the latest seasonally adjusted Business Activity Index reading was much lower than the long-run series average (57.6)

New Business Index

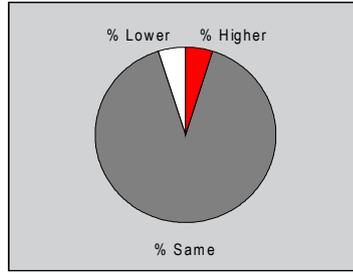
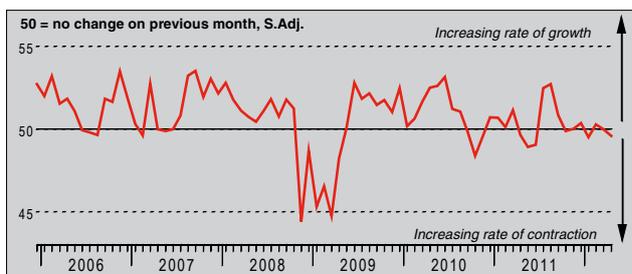
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



April data pointed to a further expansion of incoming new business placed at service providers in India. Moreover, the latest seasonally adjusted New Business Index reading signalled a robust rate of expansion that was broadly unmoved since the preceding month. Around 32% of panellists reported a rise in new orders since March, which many linked to better client demand. Some panellists also commented on improving market conditions and the good quality of their services. New order growth was strongest in Financial Intermediation sector.

Outstanding Business Index

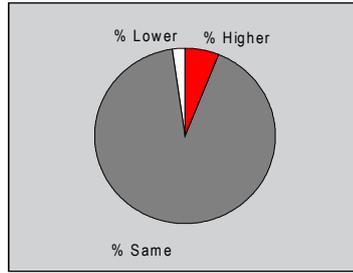
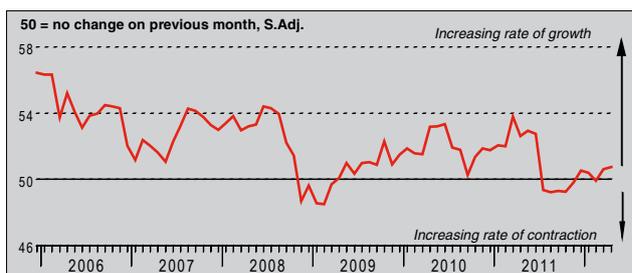
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work in the Indian service sector decreased during April, with the seasonally adjusted Outstanding Business Index dipping below the neutral level of 50.0 for the first time in three months. The overall decrease in unfinished business occurred despite another month of robust new order growth. However, the index was at a level indicative of only a marginal rate of backlog depletion, with the vast majority of companies (around 90%) reporting no change in volumes of work-in-hand (but not yet completed) at their units.

Employment Index

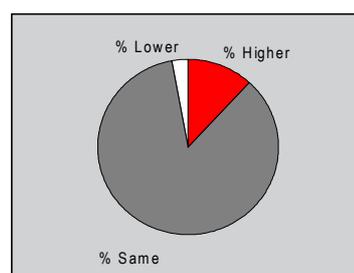
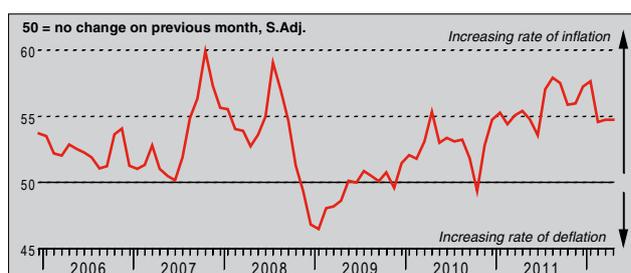
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



By registering a reading above 50.0 in April, the seasonally adjusted Employment Index signalled another month of job creation in the Indian service sector. Where a rise in employee numbers was recorded, panellists attributed this to greater inflows of new business. However, the rate of employment growth remained marginal. Highlighting this, the majority of panellists (almost 92%) reported no change in the size of their workforce since the preceding month.

Prices Charged Index

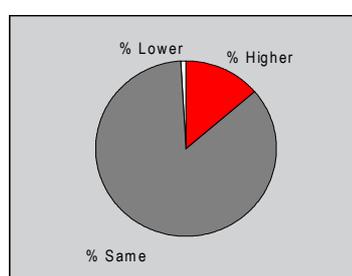
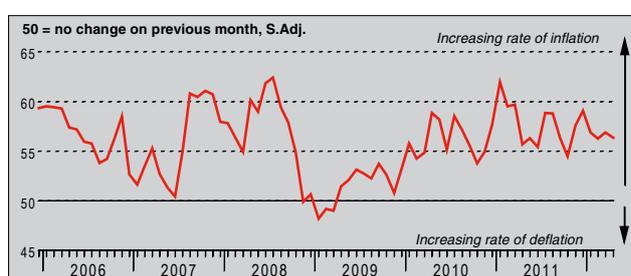
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



In line with the trend observed since November 2010, output prices set by Indian service providers rose in April. Moreover, the seasonally adjusted Prices Charged Index pointed to a marked rate of output charge inflation. Anecdotal evidence provided by survey respondents suggested that higher average tariffs reflected the passing on increased costs to clients. Higher selling prices were recorded across all six sectors monitored by the survey, with the sharpest rate of inflation seen in Renting & Business Activities.

Input Prices Index

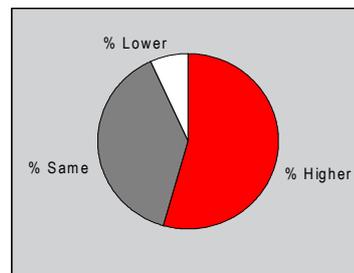
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



After adjusting for seasonal factors, the Input Prices Index pointed to a further marked rise in average input costs faced by Indian service providers during April. The rate of inflation remained broadly in line with the long-run series average, and the trend seen in 2012 so far. Almost 14% of panellists recorded a rise in average costs since March, compared with only 1% that saw a reduction. Higher wage bills were cited as the main driver of input price inflation.

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?



Business confidence in the Indian service sector improved during April, as highlighted by a sharp rise in the Business Expectations Index to a ten-month high. Around 54% of the survey panel reported positive expectations with regards to activity levels one year from now, compared with 7% that foresee a decline. Panellists widely reported that better economic conditions would lead to higher customer numbers over the coming 12 months. Some companies also mentioned expectations of stronger new order growth and business expansion plans.

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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