

Embargoed until: 10:30 (MUMBAI), 4 July 2012

HSBC India Services PMI™

Output expands solidly at services firms in India

Key findings:

- Business Activity Index posts 54.3 in June
- New business expands at the fastest rate since February
- Input costs increase sharply

The health of the Indian service sector continued to improve in June, according to the latest PMI data. Output expanded in line with increasing demand. Meanwhile, backlogs contracted as companies expanded their workforces. Input price inflation was recorded for a thirty-ninth successive month and charges were raised accordingly. The degree of optimism at services firms in India dipped to the lowest since March.

After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 54.3 in June, down from 54.7 in May. Output increased solidly as order book volumes continued to expand. However, the rate of expansion was below its long-run trend (57.5).

New business growth remained broadly in line with that in the previous month and the current expansionary period was extended to three years and two months. Respondents indicated that new orders had increased as demand strengthened.

The amount of outstanding business decreased in June, following a rise in May. Approximately 7% of respondents reported lower levels of outstanding business and the majority (88.8%) stated that backlog levels remained constant. Data implied that work-in-hand (but not yet completed) decreased as companies took on extra staff.

Staffing levels grew slightly during June, marking a four-month sequence of expansion. The increase in payroll numbers was the strongest since June 2011 but was below the long-run average for this series. Services firms indicated that jobs were created

to enable the completion of new projects. Moreover, it was reported that increasing marketing required more employees in this department.

Input prices rose sharply at Indian services companies in June, with the rate of increase remaining exactly the same as the previous month. Panellists reported increasing costs of fuel, rent and salaries. Moreover, firms indicated that higher taxes added to inflationary pressures. Input costs have now risen in each of the past 39 months.

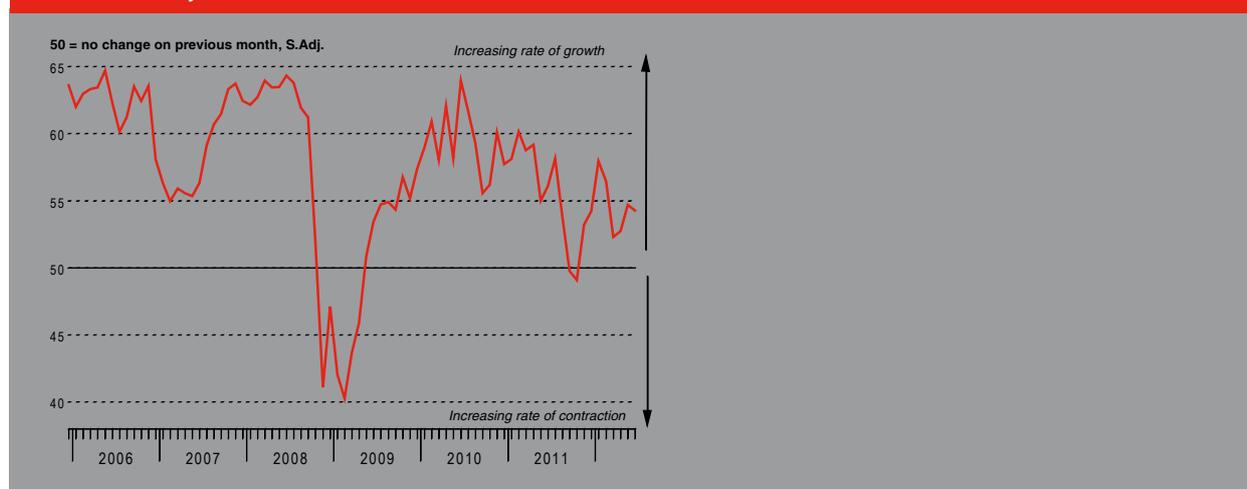
Indian services companies reportedly passed the rise in input costs on to their clients. Charges increased considerably in June, although the pace of increase was slightly slower than seen in May.

Output prices have increased in each month since November 2010. Approximately 15% of respondents stated that charges were increased in June, roughly five times the proportion that reported a decrease.

Business expectations remained positive in June. Optimism has been recorded in each month since the survey began in December 2005. Although the level of optimism dipped to the lowest since March, sentiment was still above the long-run series average.

Nearly 51% of services firms expect activity to increase in the coming year compared with 5% of respondents that forecast a deterioration. Panellists mainly linked optimism regarding the 12-month outlook to improved marketing strategies.

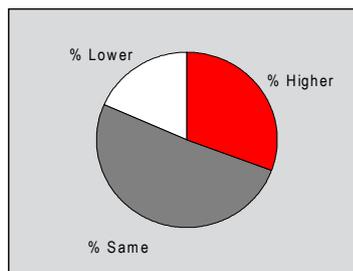
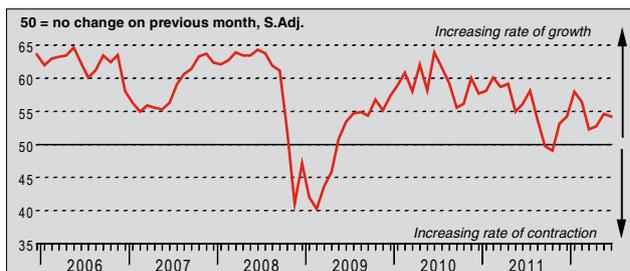
Business Activity Index



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

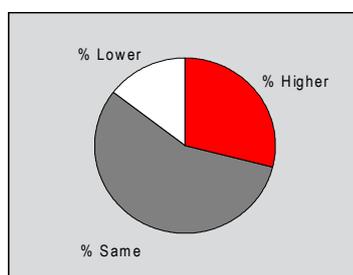
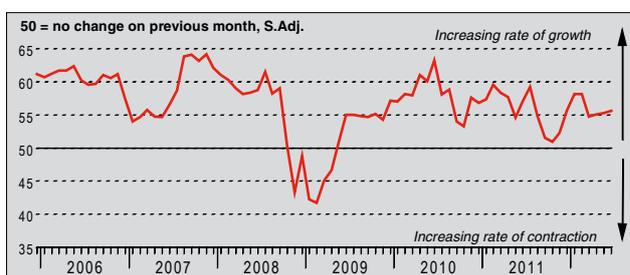
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity expanded further in the Indian service sector in June. The rate of increase signalled by the Business Activity Index was solid and broadly in line with May. However, the rate of growth was below the long-run trend for the series. Stronger demand was reported as the main driver of increasing business activity. Almost 31% of panellists reported higher output over the month, in contrast to 18% of companies indicating lower business activity.

New Business Index

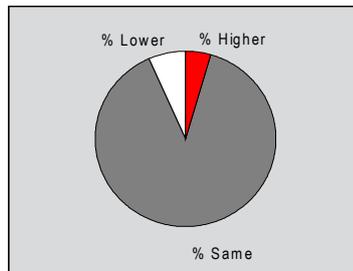
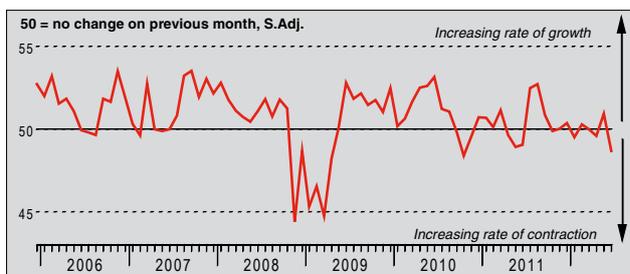
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business at services companies in India increased considerably in June, extending the current expansionary period to three years and two months. The rate of growth quickened slightly to the fastest since February. Anecdotal evidence suggested that the volume of incoming new work increased in line with stronger demand. Exactly 29% of firms in the service sector stated that new orders were higher, while almost 15% signalled a drop in new work.

Outstanding Business Index

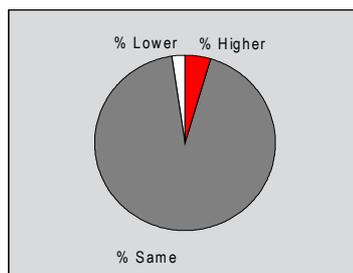
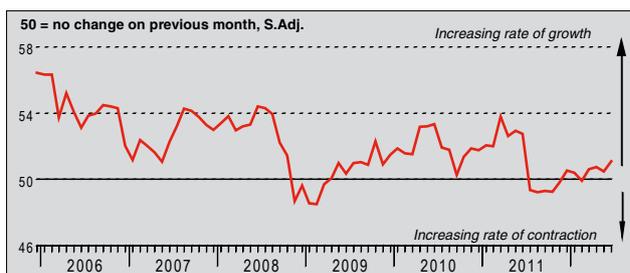
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted below the no-change 50.0 benchmark to signal a fall in backlogs of work in June following a rise in May. Outstanding business has decreased in two of the past three months. Although the rate of contraction was only modest, it was the strongest since October 2010. Almost 7% of panellists stated that unfinished business declined in June and the majority (88.8%) indicated that backlogs had not changed.

Employment Index

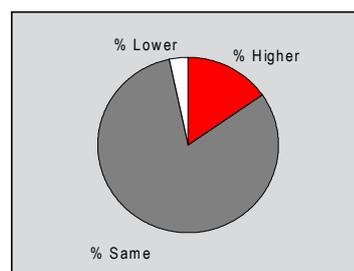
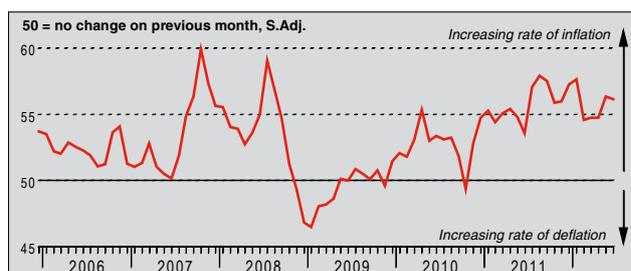
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Staffing levels continued to increase at Indian services firms during June, extending the current expansionary period to four months. The rate of expansion was only slight, accelerating only marginally from May. That said, the increase in workforces was the strongest since June 2011. Anecdotal evidence suggested that payroll numbers increased to accommodate new projects. Moreover, panellists stated that a rise in marketing required more employees in this department.

Prices Charged Index

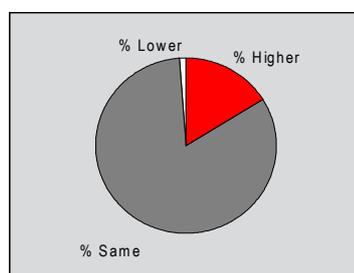
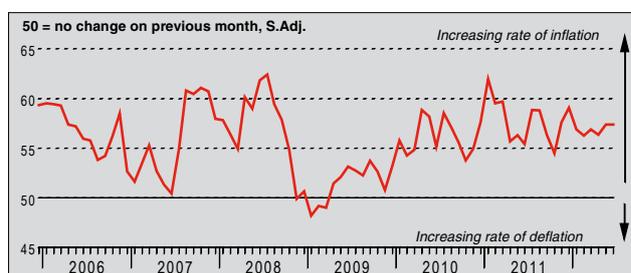
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Charges increased sharply at services firms in India, with the month-on-month rise broadly similar to that seen in May. Output price inflation has been recorded in 20 successive months. Respondents signalled that increased taxation had been partially passed on to their clients, while general inflationary pressures were also a factor behind the rise in charges. Approximately 15% of companies reported higher output prices, compared with just 3% that signalled a fall.

Input Prices Index

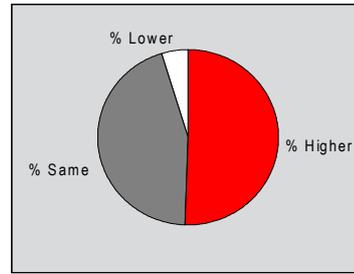
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Purchase costs increased substantially at Indian service providers in June. The rate of increase was the same as that seen in May and remained above the series average. Input price inflation has been recorded in the service sector for 39 successive months. Among other factors, respondents stated that salaries, fuel, rent and taxes had increased. Whereas approximately 16% of firms reported higher input prices, just 1% posted a decline.

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?



Optimism was noted at Indian services firms in June as signalled by the Business Expectations Index posting above the 50.0 no-change mark. Positive expectations have been recorded in each month since the survey began in December 2005. However, the level of optimism dipped to the lowest since March. Service providers indicated that improved marketing strategies and better reputations were among the factors leading to optimistic expectations.

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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