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## HSBC India Services PMI™

Output growth recorded for the ninth successive month

### Key findings:

- New business expands sharply
- The degree of optimism dips to the lowest level since March
- Output price inflation recorded for twenty-first consecutive month

Services companies in India signalled a further improvement in the health of the sector in July, with output expanding solidly. New business increased sharply, leading to a slight accumulation in backlogs. Meanwhile, job creations continued. Input and output price inflation was recorded in the latest month, partially linked to stronger demand. Moreover, an expected strengthening of demand led firms to signal optimistic expectations for the upcoming 12 months.

After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 54.2 in July, down from 54.3 in June. Output expanded solidly as order book volumes continued to grow. Moreover, service providers stated that product quality improvement combined with an increasing number of customers, led to higher output in the reporting month. Almost 27% of respondents signalled that incoming new business was higher, but 15% indicated a decline.

With demand strengthening in the Indian service sector, the volume of work placed (but not yet completed) increased. That said, the pace of accumulation was only slight, as the index posted just above the no-change benchmark of 50.0. The latest rise was broadly in line with the series long-run trend (50.8). Approximately 6% of panellists reported higher volumes of outstanding business, but 90% signalled no change.

Job creation was recorded at services firms in India. The pace of increase was slight and in line with that recorded in June. Anecdotal evidence suggested that staffing levels expanded in response to stronger demand and optimistic expectations for the

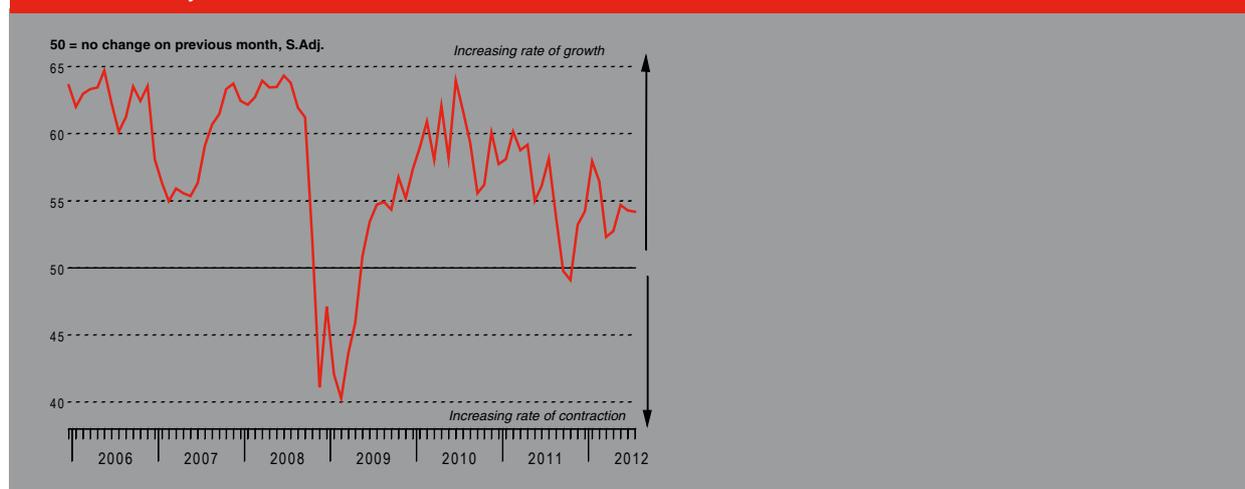
next 12 months. That said, the seasonally adjusted Employment Index posted below its long-run trend in July.

Input price inflation was signalled at Indian services firms amid reports of rising raw material prices and general inflationary pressures. Moreover, it was stated that stronger demand combined with supply shortages also led to rising input costs. Although marked, the pace of increase eased from that recorded in June, but the current inflationary period was extended to 40 months. Approximately 11% of the surveyed panel indicated higher input costs, with just 1% reporting a fall.

Service providers in India reportedly passed on to their clients the latest increase in input prices. Output charges rose substantially during July and remained above its long-run average. However, the pace of increase slowed from June. Output price inflation has persisted in the sector for 21 successive months. Panellists stated that part of the latest increase was due to increasing labour and fuel costs. Moreover, excess demand combined with increasing taxes were also factors leading to the latest adjustment in charges.

Business confidence in the Indian service sector deteriorated during July with the index posting approximately three points below June data. However, firms remained optimistic about business activity in the upcoming 12 months, amid reports of stronger demand and new marketing strategies in the next year. Of the surveyed panel, almost 46% of firms expect overall activity to increase at their units, but 7% expect a decline.

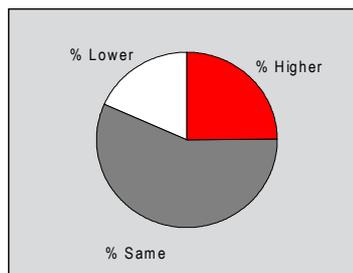
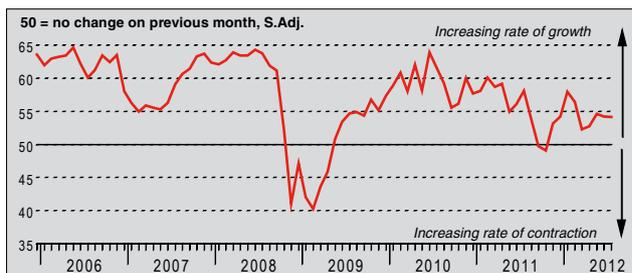
### Business Activity Index



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

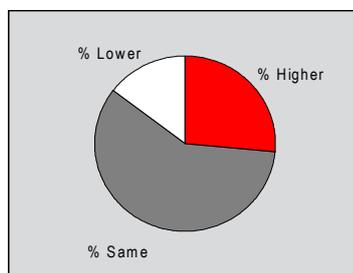
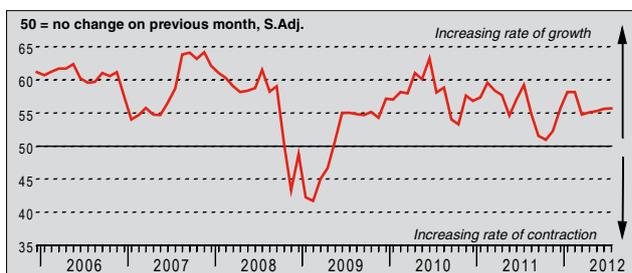
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Indian service sector increased during July, extending the current period of growth to nine months. The pace of expansion was solid, but was slower than the long-run average for the series, as signalled by the seasonally adjusted Business Activity Index. Services companies stated that output grew in line with stronger demand. Moreover, it was reported that firms were able to increase their customer base and improve product quality.

### New Business Index

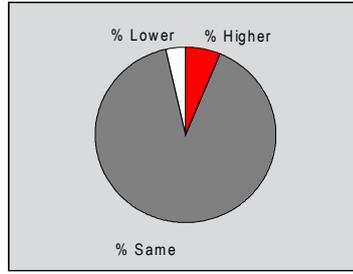
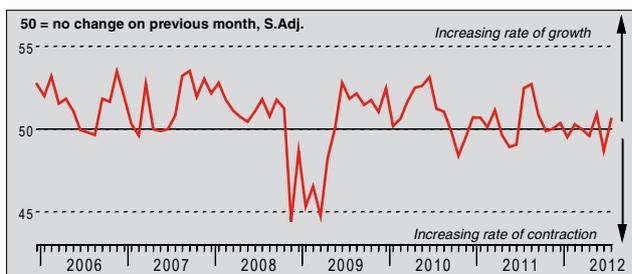
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Service providers in India signalled an increase in new business during July. The rate of expansion was steep and unchanged from that seen during June. Moreover, the current sequence of growth was extended to 39 successive months. Panellists stated that the volume of incoming new work rose as increasing product quality and brand reputation led to stronger demand. Approximately 27% of service companies indicated higher new orders, compared with 15% that noted a decline.

### Outstanding Business Index

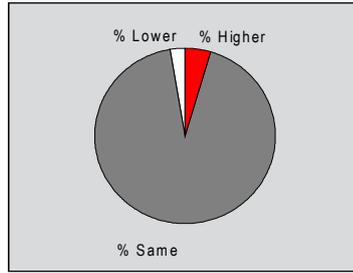
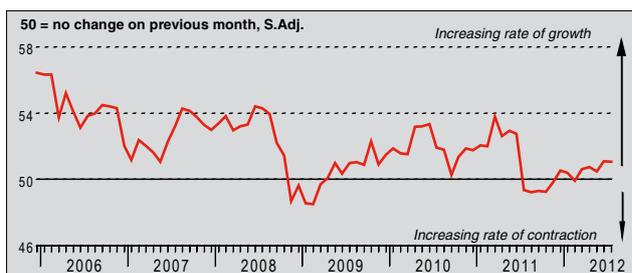
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlog accumulation at services firms in India was recorded in July. The seasonally adjusted Outstanding Business Index posted just above the no-change mark of 50.0, after signalling a decline in June. Respondents attributed the increase in unfinished business to growing new orders. Approximately 6% of service providers reported higher backlogs of work and the vast majority (90.2%) stated that there had been no change from June.

### Employment Index

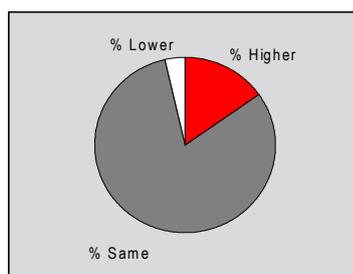
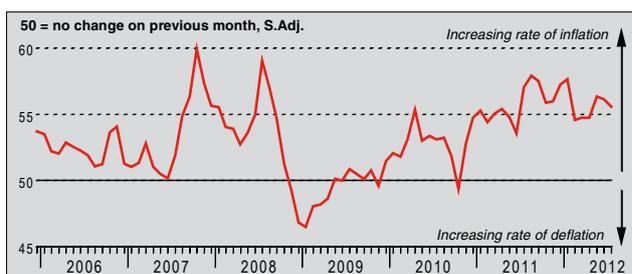
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Staffing levels at services companies in India increased slightly in July, extending the current period of job creation to five months. The pace of growth was the same as that recorded in June, but remained below the series long-run trend. According to panellists, payroll numbers were increased in order to meet stronger demand. Moreover, it was mentioned that positive expectations about the future led service providers to increase employment.

## Prices Charged Index

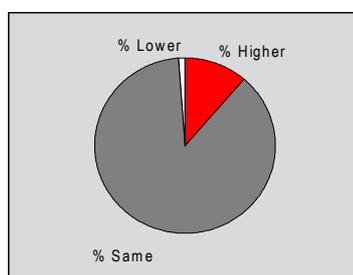
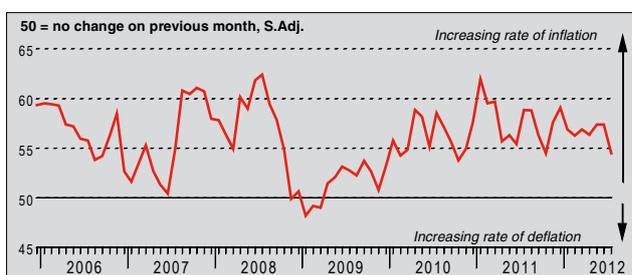
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output charges increased at services companies in India amid reports of higher labour and fuel prices as increased cost burdens were passed on to their clients. Moreover, panellists cited that increasing taxes combined with stronger demand contributed to the latest rise in output prices. The pace of inflation was steep, however it slowed from that recorded in June. The seasonally adjusted Prices Charged Index posted below its long-run average during the latest month, while the current inflationary period has been extended to 21 months.

## Input Prices Index

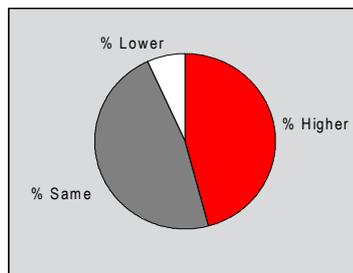
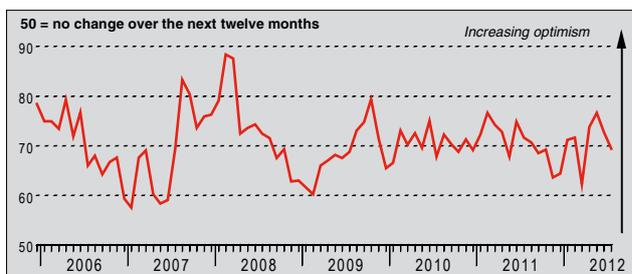
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Service providers in India signalled a further increase in input costs in July. The pace of inflation was solid, but slowed to the lowest rate since October 2011 and was below the long-run trend. Input price inflation has persisted for 40 successive months in the Indian service sector. According to respondents, input prices rose in line with increasing raw material prices, and general inflation in the sector. There were also reports of excess demand amid a short supply of inputs.

## 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 registered at services companies in India during July. However, the degree of business confidence deteriorated from that seen in June. Almost 46% of service providers signalled positive expectations about overall activity in the upcoming year and approximately 7% expect business activity to deteriorate. Panellists indicated that optimism was signalled as demand is expected to strengthen in the next 12 months. Moreover, firms stated that marketing strategies will be implemented in order to attract more business.

## 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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