

HSBC India Services PMI™

Activity expands at sharper pace in August

Key findings:

- Fastest expansion in new business since February
- Job creation recorded for sixth successive month
- Input cost inflation eases to slowest pace since December 2009

Service firms in India recorded further growth in output during August as new business expanded again. With employment rising only modestly, backlogs of work were accumulated in the latest month.

Meanwhile, input cost inflation eased to the slowest rate since December 2009, while output prices also increased at a weaker pace. Optimism improved to the highest for three months, as nearly 50% of service providers forecast a rise in activity over the forthcoming year.

The headline HSBC Business Activity Index adjusted for seasonal factors posted 55.0 in August, up from 54.2 in July and pointing to a further improvement of activity in the Indian service sector – the fastest in six months. Anecdotal evidence suggested that business activity increased in line with stronger demand, maintained brand reputation and product quality. Exactly 28% of respondents reported a rise in activity.

New business rose steeply and at the quickest rate in six months. New orders reportedly increased as demand continued to rise and the quality of services provided was maintained. The volume of incoming new work has now expanded continuously for over three years.

Staffing levels rose in the Indian service sector during August, extending the current period of job creation to six months. Although slight, the rate of expansion was the fastest in 14 months. According to respondents, payroll numbers were

increased in order to meet higher workloads.

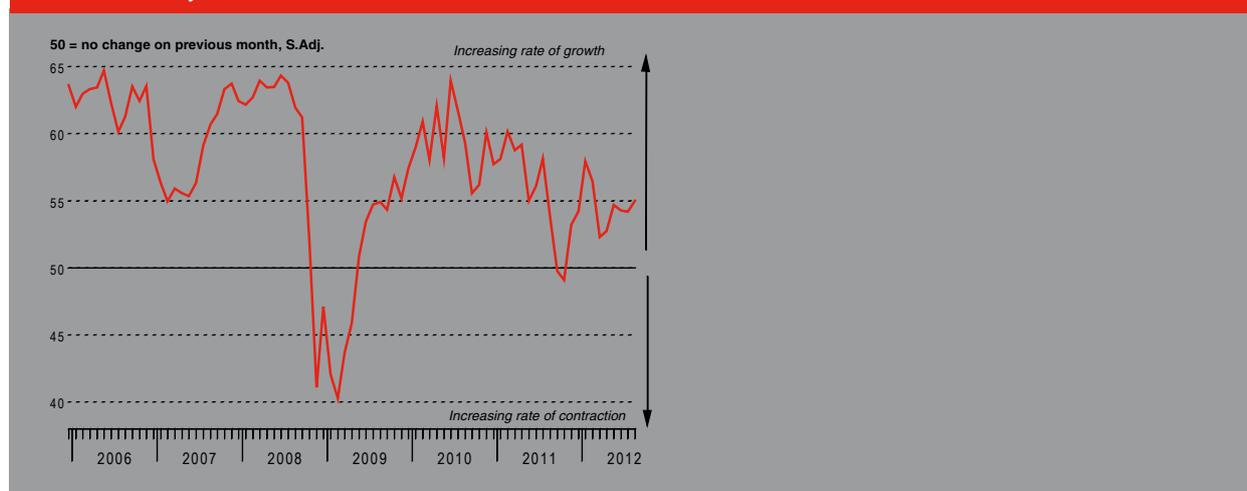
Meanwhile, backlogs of work increased for the second consecutive month amid reports of higher sales. Moreover, panellists stated that delayed payments affected outstanding business. Although slight, the rate of accumulation in unfinished work was the quickest since August 2011 and faster than the long-run trend.

Input prices increased at services firms in India, extending the current period of inflation to 41 months. Respondents linked the latest increase to higher labour and fuel costs. Moreover, stronger demand and increased taxes were also reported to have contributed to rising purchase costs. However, the rate of inflation eased from the previous month to the slowest since December 2009.

Charges at Indian service companies also rose in August, and at a solid pace. However, the rate of inflation was the slowest since November 2010. Latest anecdotal evidence implied that output prices were increased in line with higher raw material, fuel and labour costs. Output price inflation in this sector has persisted for 22 months.

Optimism was signalled in the Indian service sector. Positive sentiment has been recorded since December 2005, when the survey started. Overall activity in the upcoming year is forecast to increase as respondents will reportedly raise marketing. The degree of positive sentiment was the highest in three months.

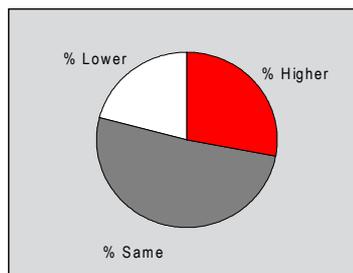
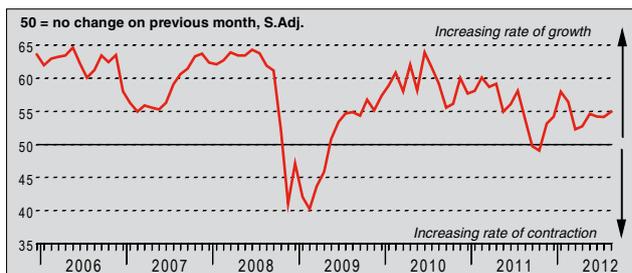
Business Activity Index



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

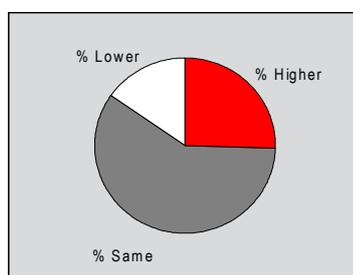
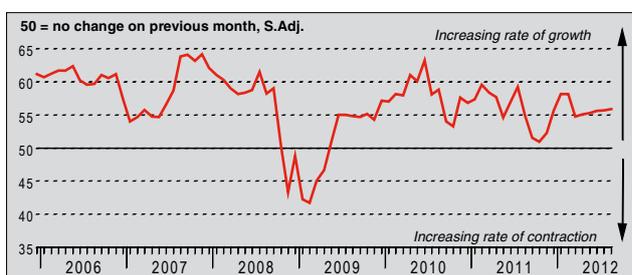
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service providers in India signalled a further increase in business activity during August. The pace of expansion was sharp and accelerated to the fastest since February. However, the seasonally adjusted Business Activity Index posted below its long run trend. According to respondents, output rose in line with stronger demand. Moreover, panellists reported that brand reputation and increasing quality of services contributed to the latest expansion in business activity.

New Business Index

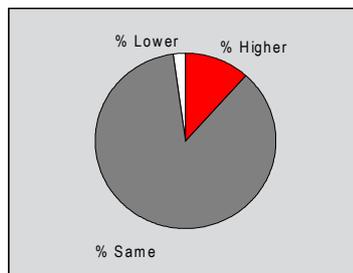
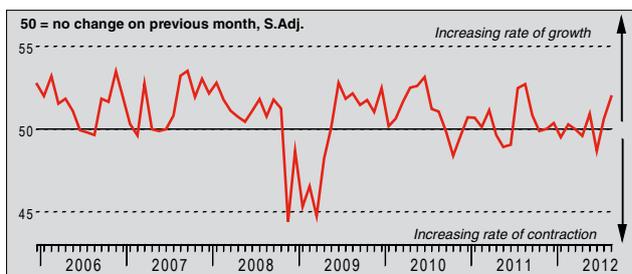
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business in the Indian service sector increased in August amid reports of growing demand and maintained quality of service. The pace of expansion was steep and the quickest in six months. Almost 26% of service providers reported an increase in new orders at their units, compared with 15% that noted a decline. The volume of incoming new work has increased continuously for over three years in this sector, but the seasonally adjusted New Business Index posted below its long run average in the latest month.

Outstanding Business Index

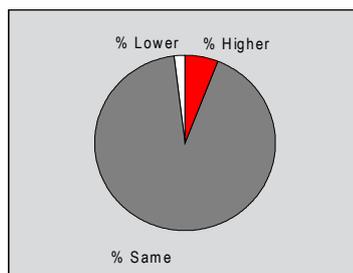
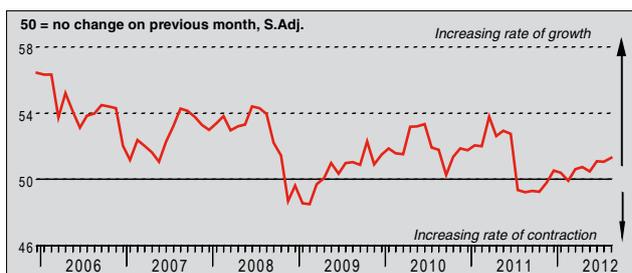
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at service companies in India increased for the second successive month in August. The rate of expansion was only moderate, but the fastest since August 2011. Moreover, the Outstanding Business Index adjusted for seasonal factors posted above its long-run trend. Anecdotal evidence suggested that unfinished business was accumulated in line with stronger sales growth. Outstanding business was also higher due to delayed payments, it was reported.

Employment Index

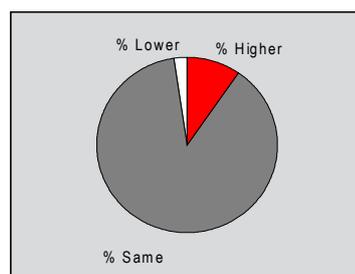
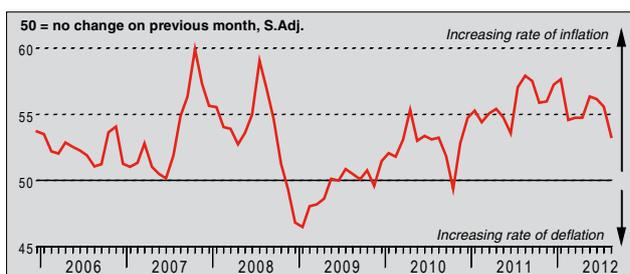
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Job creation was recorded at Indian service companies during August, extending the current period of increasing employment to a six-month sequence. Although slight, the rate of expansion was the quickest since June 2011. Service providers reportedly increased their staffing levels to meet higher output growth. Whereas almost 6% of the surveyed panel stated that payroll numbers were higher, the vast majority (92.1%) reported no change.

Prices Charged Index

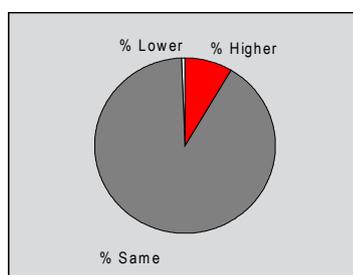
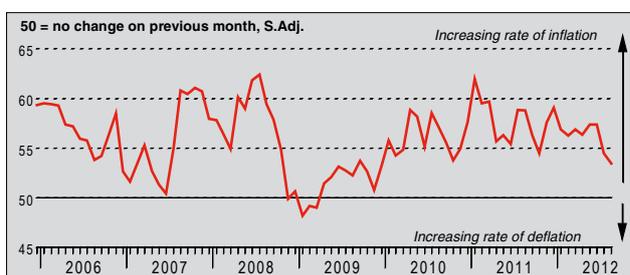
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices at service providers in India increased during August for the twenty-second successive month. Although solid, the pace of inflation was the slowest since November 2010. Anecdotal evidence suggested that charges increased in line with higher raw material, labour and fuel prices. Additionally, higher taxes and stronger demand reportedly contributed to the latest increase in prices charged. Almost 10% of panellists signalled higher charges, compared with 2% that noted a decrease.

Input Prices Index

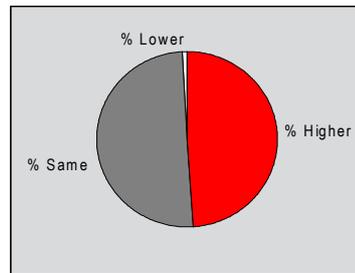
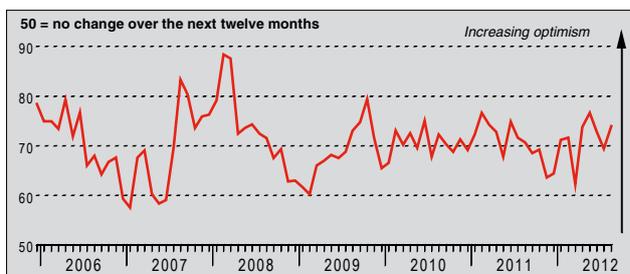
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Service providers in India noted a further rise in input prices during August, amid reports of higher labour costs. Panellists also linked the latest increase to stronger demand, higher taxes and increasing fuel costs. Although considerable, the pace of increase was the slowest since December 2009. Input price inflation has persisted in the service sector for nearly three-and-a-half years, and the seasonally adjusted Input Prices Index posted below its long-run trend in the latest month.

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 signalled at service firms in India during August. The level of positive sentiment improved, reaching a 3-month high. According to respondents, overall activity in the upcoming year is forecast to increase as they will invest more in marketing. Whereas approximately 49% of respondents signalled positive expectations for activity over the next 12 months, 1% were pessimistic.

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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