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# HSBC India Services PMI™

Growth in activity at seven-month high

#### **Key findings:**

- · New orders increase at fastest pace since February
- Seventh successive increase in workforces
- Positive sentiment deteriorated to a six-month low

In line with higher volumes of incoming new work, services companies in India recorded an increase in business activity during September. With workforces expanding, the volume of work-in-hand (but not yet completed) fell. The burden of input cost inflation was passed on to clients, as charges increased again. Meanwhile, positive sentiment was signalled, but was at a six-month low.

The headline HSBC Business Activity Index adjusted for seasonal factors - which is based on a single question asking survey respondents to report on the actual change in business activity at their companies compared with one month ago - posted 55.8 during September, up from 55.0 in August and indicating a steep increase in activity at services firms in India. The pace of expansion was the fastest in seven months. Almost 30% of panel respondents indicated higher output, mainly citing stronger demand.

New business increased for the forty-first month in a row, amid reports of stronger demand, good product quality and increasing marketing. The pace of expansion was steep and the fastest since February.

Staffing levels in the Indian service sector increased at a slight pace. Anecdotal evidence suggested that payroll numbers were increased to meet higher volumes of new work, led by stronger demand. Moreover, some respondents increased their workforces in line with planned business expansions. Job

creation in the sector has been recorded for seven successive months.

Service firms in India signalled a reduction in backlogs of work during September, the first decline registered since June. That said, the pace of depletion was only slight.

Input costs in the Indian service sector increased during September, as has been the case since April 2009. The rate of inflation was marked and accelerated from August's 32-month low. Approximately 11% of survey respondents indicated higher input prices, citing increasing fuel, petroleum, gold and labour costs. Moreover, there were mentions of higher taxes and excess demand.

Services companies passed on to their clients the latest rise in purchase costs, as charges were increased during September. The pace of inflation was marked and quickened from August. Around 13% of respondents indicated that they had raised their charges during the month.

Despite signalling optimism during September, positive sentiment by service providers was at a six-month low. According to panellists, overall activity is forecast to expand in the upcoming 12 months as demand is expected to strengthen. Furthermore, there were mentions of planned business expansions and increasing marketing. Approximately 39% of monitored companies signalled positive sentiment, in contrast to only 4% that were pessimistic.



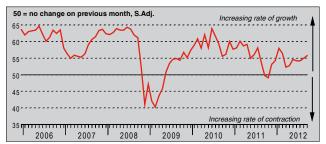
The survey uses a methodology identical to the HSBC India Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure 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.

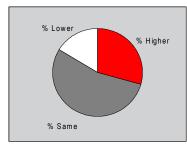




#### **Business Activity Index**

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.





Services companies in India signalled an increase in output during September. The rate of expansion signalled by the seasonally adjusted Business Activity Index was steep, and the fastest since February. That said, the Index posted below the series long-run average. According to panel members, activity mainly increased in line with stronger demand. Business activity in this sector has increased in each of the past 11 months.

#### 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.

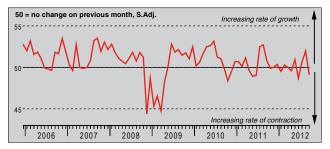


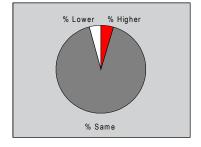


The volume of incoming new work at services companies in India increased in September, marking a 41-month sequence of expansion. The rate of growth was sharp and the fastest in seven months. Almost 30% of service providers indicated that new orders were higher, citing stronger demand and good quality of services. There were also mentions of increasing marketing and good market reputation. In contrast, approximately 12% of panel members reported lower new orders.

# 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.



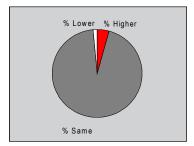


The seasonally adjusted Outstanding Business Index in the Indian service sector posted below the 50.0 no-change mark, which separates expansion from contraction during September, to signal that the volume of work-in-hand (but not yet completed) fell for the first time in three months. That said, the rate of depletion was only slight as the majority of panellists recorded no change outstanding business.

## **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).



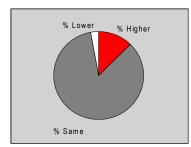


September data signalled job creation in the Indian service sector, marking a seven-month sequence of increasing payroll numbers. With approximately 4% of panellists reporting increased workforces but the vast majority (94%) signalling no change, the pace of expansion was only slight. That said, the rate of growth was the fastest recorded since June 2011. Anecdotal evidence suggested that staffing levels were increased to meet higher volumes of work, led by stronger demand. There were also some reports of company expansions.

#### 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.



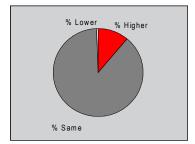


Output prices at services companies in India increased markedly in September, amid reports of higher taxes and input cost inflation. The pace of inflation accelerated from that seen in August, and the Prices Charged Index adjusted for seasonal variations posted above the series long-run trend. Almost 13% of monitored companies signalled higher charges at their units, in contrast to 3% indicating lower output prices.

#### 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.



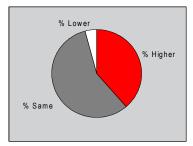


Services companies in India indicated higher input costs in September, and the current inflationary period was extended to 42 months. The pace of inflation was marked and accelerated from August. That said, the seasonally adjusted Input Prices Index posted below the series long-run trend. Approximately 11% of panel members signalled higher input costs and cited increasing labour, fuel, petroleum and gold prices. Additionally, there were reports of higher taxes and strong demand for 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 signalled in the Indian service sector during September, as has been the case since records began in December 2005. However, the level of positive sentiment was at a six-month low. Service providers forecast an increase in overall activity over the coming year as demand is expected to strengthen. Moreover, companies expect output to increase as they will invest in more marketing, and some units are planning business expansions.

## 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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