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# HSBC India Services PMI™

Activity expands at slowest rate since April

#### **Key findings:**

- Twelfth successive monthly expansion in business activity
- Sharp increase in new total business
- Output inflation at three-month high

In line with increased new total business, activity in the Indian service sector expanded during October. Although workforces grew, backlog accumulation was recorded. Meanwhile, input and output price inflation were both signalled for a further month. Optimism regarding the 12-month business outlook was recorded, with the degree of positive sentiment slightly stronger than that recorded in September.

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 in which readings above 50.0 signal expansions and readings below 50.0 indicate a contraction - posted 53.8 in October, down from reading of 55.8 in September. That signalled the slowest rate of expansion since April, albeit a solid pace overall. Anecdotal evidence suggested that output growth was supported by stronger demand.

New business also increased, amid reports of strengthening demand, maintained service quality and brand reputation. The rate of expansion was strong, albeit slightly slower than that recorded in September.

Employment at services firms in Indian increased, marking an eight-month sequence of job creation. But with only 2% of respondents reporting higher payroll numbers and the vast majority (98%) signalling no change, the overall pace of expansion was only slight. According to panellists, staffing levels

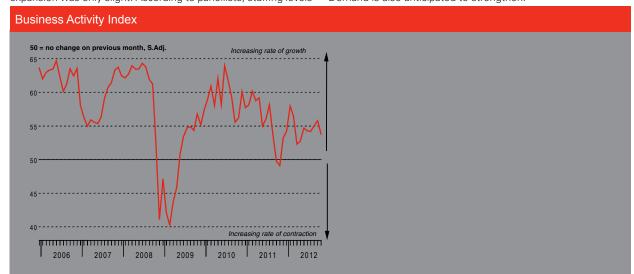
were increased in tandem with higher workloads.

Backlogs of work were accumulated despite higher employment. Stronger demand and delayed payments were mentioned by panellists as reasons for the latest increase. The pace of growth in outstanding business was moderate, but still the fastest in 14 months.

Input price inflation in the Indian service sector persisted during October, amid reports of higher fuel, labour, gold, oil and gas prices. Input costs have increased in each of the past 43 months, Moreover, the rate of input price inflation was solid and the fastest in four months.

Consequently, prices charged increased again. The pace of output price inflation was solid and the quickest in three months. Approximately 12% of panel members indicated higher charges, citing increased raw material, petrol, food, gold and rental costs. Additionally, there were reports of higher taxes and transportation costs. Output prices have increased in each of the past 24 months.

As has been the case since the survey started in December 2005, optimism regarding overall activity in the upcoming year was signalled in October. Furthermore, the degree of positive sentiment was stronger than in September. Service providers forecast higher activity in line with increased marketing, maintained brand reputation and the launch of new projects. Demand is also anticipated to strengthen.



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.

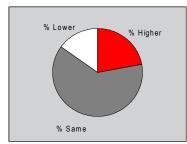




#### **Business Activity Index**

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.



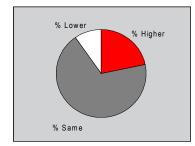


Business activity in the Indian service sector increased during October, marking a 12-month sequence of growth. Although solid, the pace of expansion was the slowest since April. Exactly 22% of respondents reported greater output, citing higher new business led by stronger demand. In contrast, approximately 15% of panellists signalled 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.



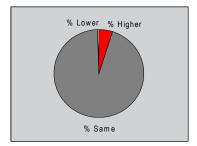


Service providers in India signalled higher new business in October, amid reports of stronger demand, maintained brand reputation and good quality of services. New total business has expanded in each of the past 42 months. The pace of growth as signalled by the seasonally adjusted New Business Index was strong, but slower than September's seven-month high. Whereas approximately one-fifth of the survey panel signalled higher new business, almost 10% indicated that it was lower.

# 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.



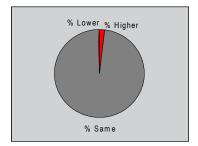


Outstanding business at services firms in India increased during October. The pace of backlog accumulation was moderate, though the quickest since August 2011. Additionally, the Outstanding Business Index adjusted for seasonal variations posted above the long-run series average. Anecdotal evidence suggested that unfinished business increased in tandem with stronger demand and delayed payments.

## **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).



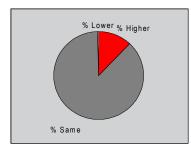


Services companies in India indicated increased payroll numbers during October for the eighth successive month. That said, the rate of expansion was only slight and the slowest in five months. According to respondents, increased workloads resulted in job creation. There were also mentions of appointments at managerial level. Only 2% of monitored companies signalled higher employment, while the vast majority (98%) indicated 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.



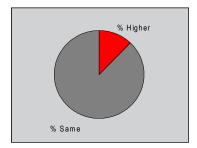


Continuing the trend that started in November 2010, prices charged at services companies in India increased. The rate of inflation was marked and the quickest in three months. Whereas 12% of service providers indicated higher output charges, 87% signalled no change from September. Data implied that higher raw material, petrol, food, gold and rental costs resulted in increased selling prices. There were also mentions of higher taxes and transportation costs.

### 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.



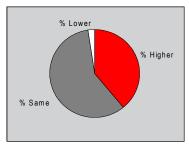


Input prices at services firms in India increased during October, as has been the case since April 2009. The pace of input cost inflation was solid and accelerated to the fastest in four months. However, the Input Prices Index adjusted for seasonal factors posted below the long-run series trend. Approximately 12% of surveyed companies signalled increased input costs, citing higher fuel, labour, gold, oil and gas prices.

# 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 regarding overall activity in the upcoming year was signalled in the Indian service sector during October. Furthermore, the degree of positive sentiment was stronger than that seen in September. Service providers expect overall activity in the next 12 months to increase in tandem with planned business expansions, increased marketing, maintained brand reputation and the launch of new projects. Moreover, demand is forecast to strengthen.

## 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 an '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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