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HSBC India Services PMI™

Business activity expands at fastest rate in 12 months

Key findings:

- Sharp rise in output
- Growth in new orders at 18-month high
- Employment increases for eleventh successive month

Led by a strong rise in new orders, business activity in the Indian service sector increased sharply during January, and at the fastest rate in 12 months. Concurrently, backlogs of work were accumulated, albeit only slightly. With higher levels of new business, firms hired additional staff for the eleventh consecutive month, but the rate of job creation remained subdued. Meanwhile, further optimism was signalled.

The headline *HSBC Business Activity Index* 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. Readings above 50.0 signal an expansion and readings below 50.0 indicate a contraction. After adjusting for seasonal factors, the index posted 57.5 in January, up from 55.6 in December. This signalled a sharp expansion in output, and one that was the fastest since January last year. According to panel members, business activity increased in tandem with rising volumes of incoming new work. Growth in activity has now been sustained for 15 successive months.

As has been observed since May 2009, total new business in the Indian service sector increased during January. The overall rate of expansion was sharp and the fastest in 18 months. Anecdotal evidence suggested the volume of incoming new work rose in line with stronger demand and maintained quality of services.

Reflective of further new business growth, the level of unfinished work rose during January, the second successive monthly rise

recorded. Nonetheless, backlogs of work increased only slightly, with the rate of accumulation easing from December.

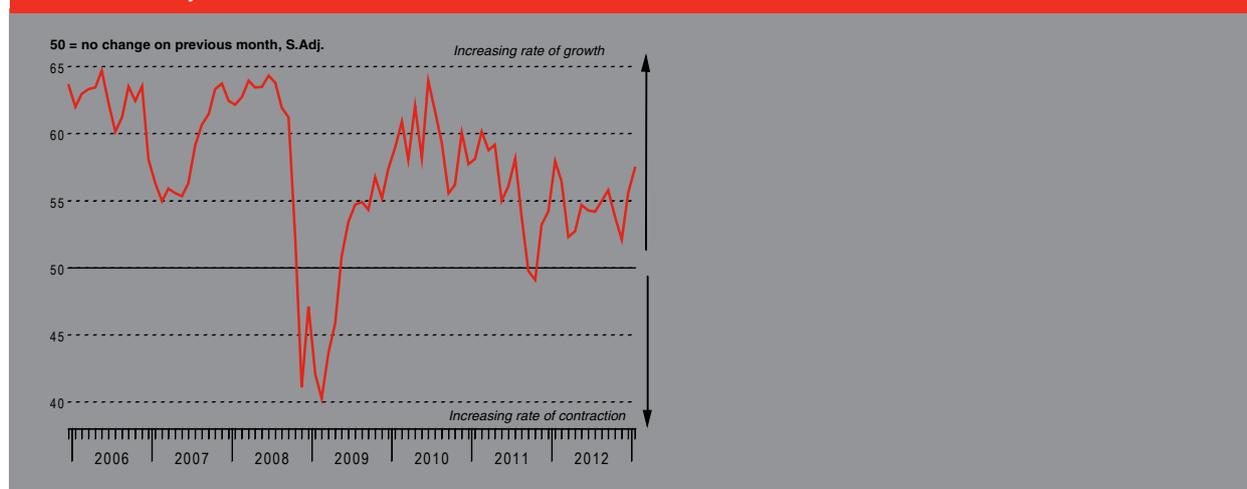
Payroll numbers in the Indian service sector rose for the eleventh month running in January, amid evidence of increased volumes of incoming new work. Despite posting a four-month high, the rate of job creation was only slight.

Marking a 46-month inflationary sequence, input prices at services companies in India rose during January. Although solid, the rate of increase was little-changed from December. Panellists reporting higher average prices paid cited increasing fuel, labour and raw material costs.

Subsequently, service providers increased their selling prices for a further month. But, with only 6% of monitored companies indicating higher charges and the vast majority (93%) reporting no change, the overall rate of inflation was only moderate and unchanged from December. Output prices have increased throughout the past 27 months.

Companies operating in the Indian service sector remained optimistic regarding activity levels in the upcoming year, but the degree of confidence was the lowest registered in three months. Approximately 42% of services companies predict overall activity at their units to increase, while just 3% forecast a decrease. Anticipated rises in demand, increased marketing and maintained brand reputation are projected to contribute to higher output.

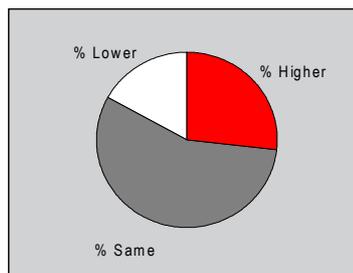
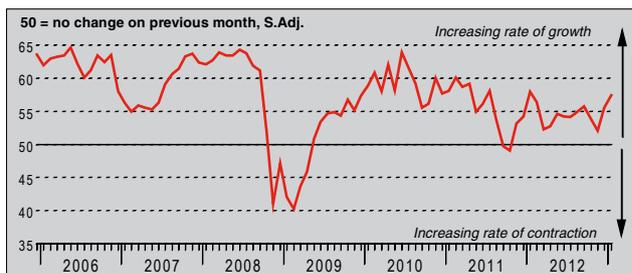
Business Activity Index



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

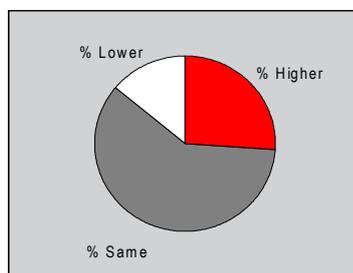
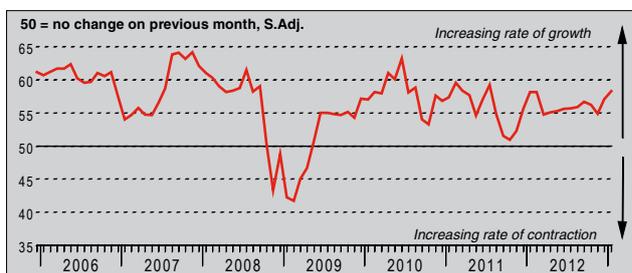
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



As has been the case since November 2011, output in the Indian service sector rose during January. Almost 27% of monitored companies reported higher business activity, while 17% noted a fall. The overall rate of growth was sharp and the fastest in 12 months. Anecdotal evidence suggested that output growth was supported by rising total new business.

New Business Index

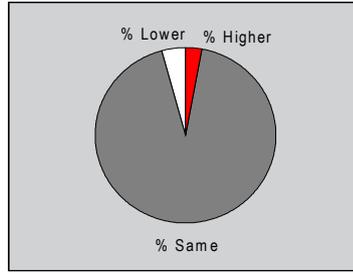
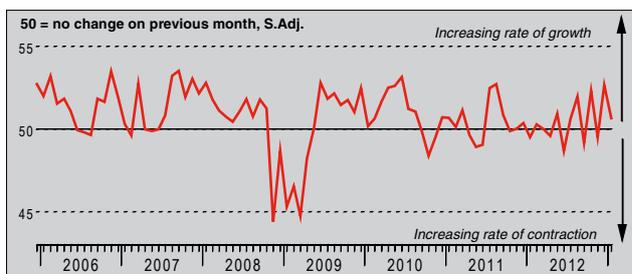
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Services companies in India indicated increased volumes of incoming new work during January, marking a 45-month sequence of growth. The pace of expansion was sharp and accelerated to the fastest since July 2011. Moreover, the seasonally adjusted New Business Index posted above the series long-run average. Approximately 26% of the survey panel reported higher levels of new business, citing stronger demand and maintained quality of services.

Outstanding Business Index

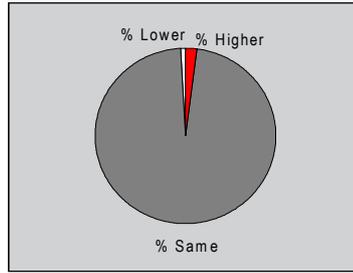
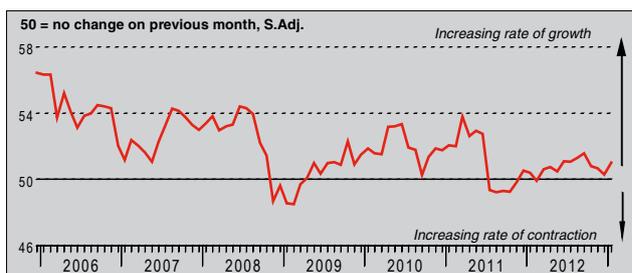
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of unfinished business at services firms in India rose for the second consecutive month in January. That said, the rate of accumulation was only slight and eased from December. The Outstanding Business Index adjusted for seasonal variations posted broadly in line with the historic series average. Among other factors, panellists stated that backlogs of work increased in tandem with delayed payments from their clients.

Employment Index

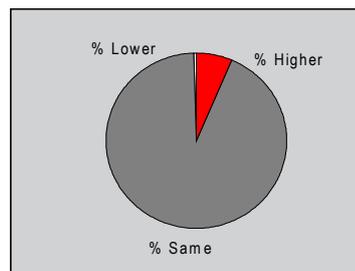
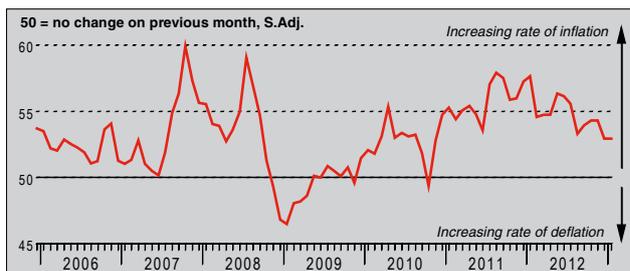
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Continuing the trend that started in March last year, payroll numbers in the Indian service sector increased during January, amid reports of higher workloads. However, only 2% of monitored companies signalled higher employee headcounts, while 97% indicated no change from the previous month. Subsequently, the overall rate of job creation was only slight.

Prices Charged Index

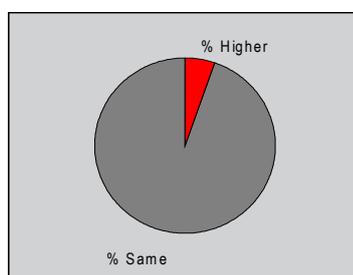
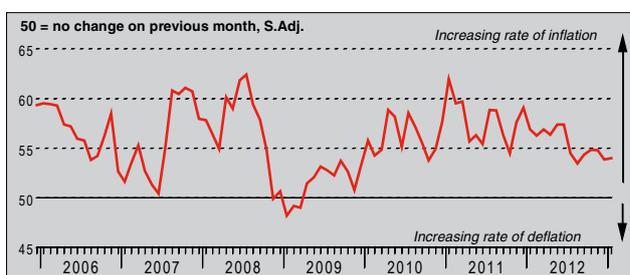
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



January data signalled persistent charge inflation in the Indian service sector, amid reports of rising input costs. However, average selling prices rose only moderately, with the pace of inflation unchanged from December. Approximately 6% of monitored companies reported higher output prices, but 93% indicated no change. Prices charged have increased in each of the past 27 months.

Input Prices Index

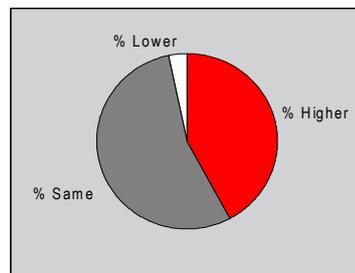
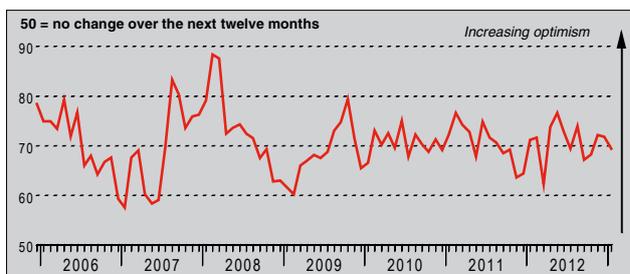
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Continuing the trend that has been registered in each month since April 2009, input prices at services firms in India rose during January. Although solid, the rate of inflation was little-changed from December's four-month low. According to service providers, rising fuel, labour and raw material costs all fed through to the latest rise in input prices. There were also reports of higher tax rates at some units.

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?



Service providers in India remained optimistic during January. Of the survey panel, approximately 42% expect overall activity at their units to expand in the upcoming year, citing increased marketing, maintained brand reputation and anticipated rises in demand. Consequently, the degree of confidence was strong, albeit the weakest in three months. Positive sentiment has been signalled throughout the seven years of data collection.

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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