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HSBC India Services PMI™

Slowest rise in business activity for 17 months

Key findings:

- Output expands only slightly
- New orders increase at slowest pace since November 2011
- Confidence at highest level for three months

Indian service sector expansion eased to the slowest in the current 17-month expansionary sequence during March as new business growth also slowed. New order volumes continued to rise, but the pace of increase was the weakest recorded since November 2011. Business optimism nonetheless remained strong and confidence was the highest in three months. Slight job creation was signalled while, on the price front, rates of input and output price inflation both slowed.

After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 51.4 in March, down from 54.2 in February, signalling a further monthly expansion of services output. However, the latest increase in business activity was only slight, and the index fell to the lowest reading since October 2011, posting well below the long-run series average (57.2). While some respondents suggested that increases in new work had supported a rise in activity, slower growth in new business reportedly led to a similar easing with regards to output. The rate of expansion in new orders moderated to the weakest since November 2011.

March data pointed to a rise in outstanding business levels in the Indian service sector. Companies that mentioned higher volumes of work-in-hand (but not yet completed) attributed this to greater inflows of new business. The rate of backlog accumulation was moderate and eased since February. Unfinished business levels have increased for four consecutive months.

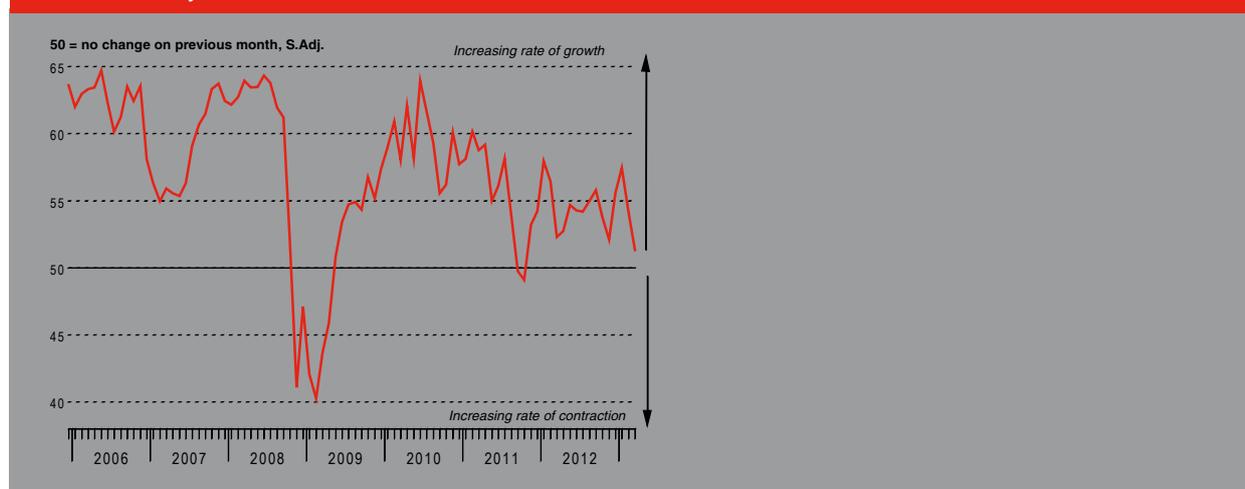
In response to higher workloads, service providers in India added to their staff numbers during March, marking a 13-month sequence of employment growth. However, with only 1% of monitored firms reporting higher payroll numbers, the overall rate of job creation was slight.

Input prices in the Indian service sector rose further during March, amid evidence of higher prices paid for raw materials, labour and fuel. Despite being solid, the rate of cost inflation eased to a three-month low and the index posted below the series average. Higher input prices have now been recorded throughout the past four years.

Subsequently, service sector firms increased their selling prices in March. The rate of output charge inflation was, however, moderate and weaker than in February. Almost 6% of monitored companies signalled higher tariffs, while 2% noted a decline. The latest increase in average selling prices was the twenty-ninth in consecutive months.

In line with the trend observed throughout the series history, Indian service providers were optimistic regarding the one-year business outlook in March. The degree of confidence was the strongest recorded since December 2012. Service sector firms linked positive sentiment to expectations of stronger demand and planned investment in marketing. A number of companies also expect business expansion plans to support activity growth in the upcoming 12 months.

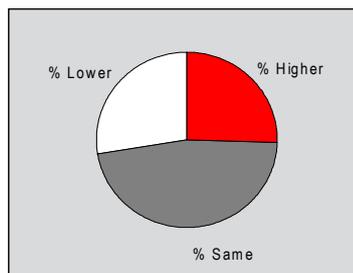
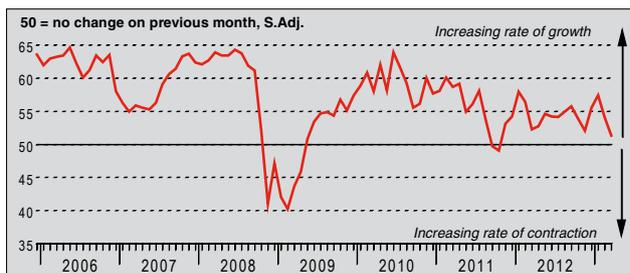
Business Activity Index



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

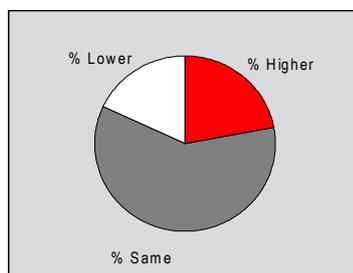
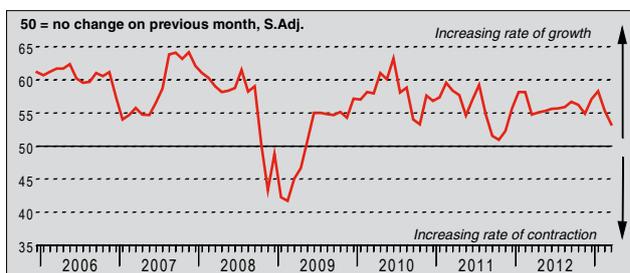
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Indian service sector rose during March, marking a 17-month sequence of growth. However, the rate of expansion, as indicated by the seasonally adjusted Business Activity Index, was only slight and the slowest in that sequence. Moreover, the index posted well below the series average (57.2). Those panel members reporting higher output mentioned new contract wins, while a slowdown in new order growth was behind the weaker rise in activity.

New Business Index

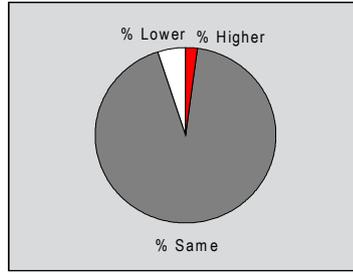
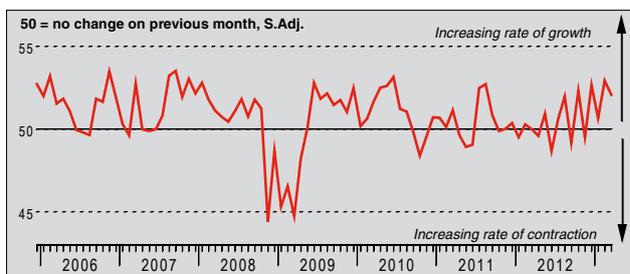
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



March data signalled that new business in the Indian service sector increased. The pace of expansion was, however, moderate and eased to the slowest since November 2011. Nevertheless, the seasonally adjusted New Business Index averaged 55.7 for the first quarter of the year, broadly similar to Q4 2012 (56.1). Exactly 22% of survey participants reported higher volumes of incoming new work, citing strong demand and maintained quality of services.

Outstanding Business Index

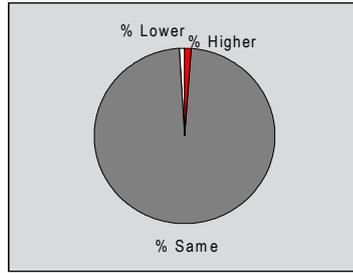
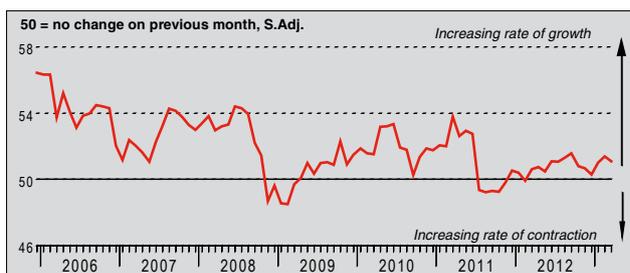
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Companies operating in the Indian service sector signalled higher levels of outstanding business during March, the fourth rise registered in successive months. However, the Outstanding Business Index adjusted for seasonal variations indicated that the rate of accumulation was moderate and slower than in February. Anecdotal evidence suggested that backlogs of work rose in line with new business growth.

Employment Index

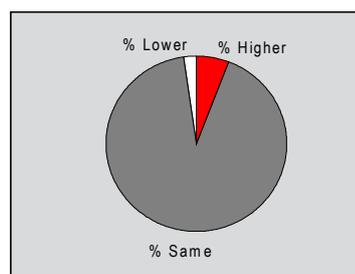
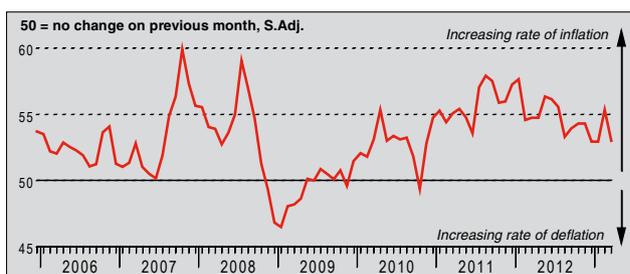
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Services firms in India indicated increased payroll numbers during March, extending the current sequence of job creation to 13 months. Only 1% of monitored companies signalled higher staffing levels, while the vast majority (98%) indicated no change. Consequently, the overall rate of expansion was slight and slower than in February. According to respondents, increased workloads resulted in higher numbers of people employed.

Prices Charged Index

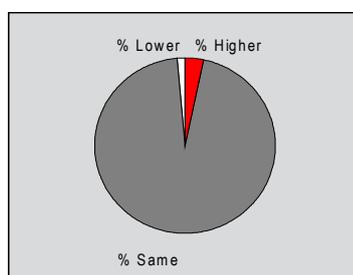
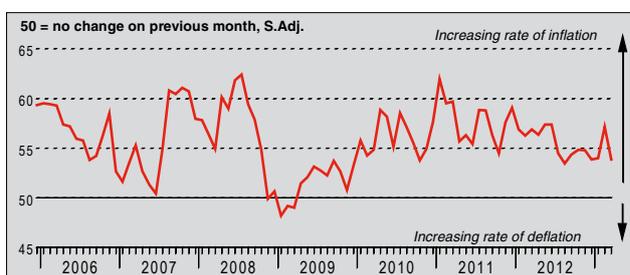
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Reflective of rising costs, services companies in India increased their selling prices during March. Whereas 6% of panellists reported higher output prices, the vast majority (92%) indicated no change from one month previously. Subsequently, the overall rate of charge inflation was moderate and slower than in February. Average prices charged have increased in each month since November 2010.

Input Prices Index

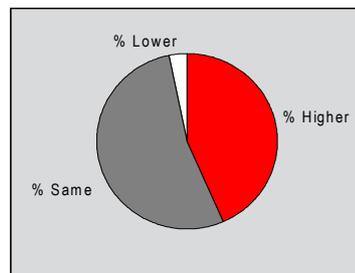
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input costs in the Indian service sector rose during March. The pace of inflation was solid, although the slowest in three months. Moreover, the Input Prices Index adjusted for seasonal factors posted below the long-run series trend. Monitored firms signalling higher input prices mentioned increased raw material, fuel and labour costs. Average prices paid by service providers have increased throughout the past four years.

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?



Further optimism was signalled by service providers in India during March, as has been the case since the survey began in December 2005. The level of positive sentiment was strong and at a three-month high. Survey participants forecast an increase in overall activity over the coming year as demand is anticipated to strengthen. Moreover, companies are set to invest in additional 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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