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HSBC India Services PMI™

Activity rises at slowest rate for 18 months

Key findings:

- Output up marginally
- New business growth decelerates for third month running
- Input and output price inflation ease

Service sector activity in India increased during April, but the pace of growth was the slowest in the current one-and-a-half year period of expansion. Total new business also rose at a weaker rate, although job creation was maintained.

On the price front, input and output prices both increased at slower rates. Looking ahead, strong optimism towards higher activity in the forthcoming year was signalled.

The seasonally adjusted HSBC Business Activity Index fell to 50.7, from 51.4 in March. The latest reading indicated that growth was marginal and the slowest in the current one-and-a-half year expansionary period. Moreover, the index fell considerably from the average reading registered in Q1 2013 (54.3). Companies mentioned that slower activity growth reflected weaker gains in incoming new work.

There were also reports of extreme weather and that market conditions were increasingly challenging. Subsequently, new business placed at services firms in India rose for the forty-eighth consecutive month during April, but at a slower pace. With 23% of respondents signalling increased levels of new orders and 16% noting a fall, the rate of expansion was the weakest since November 2011.

Hiring was sustained during April, marking a 14-month sequence of job creation. Employee headcounts increased at a modest pace, but one that was slower than in March. Those service providers that indicated higher staffing levels linked the rise to

activity growth.

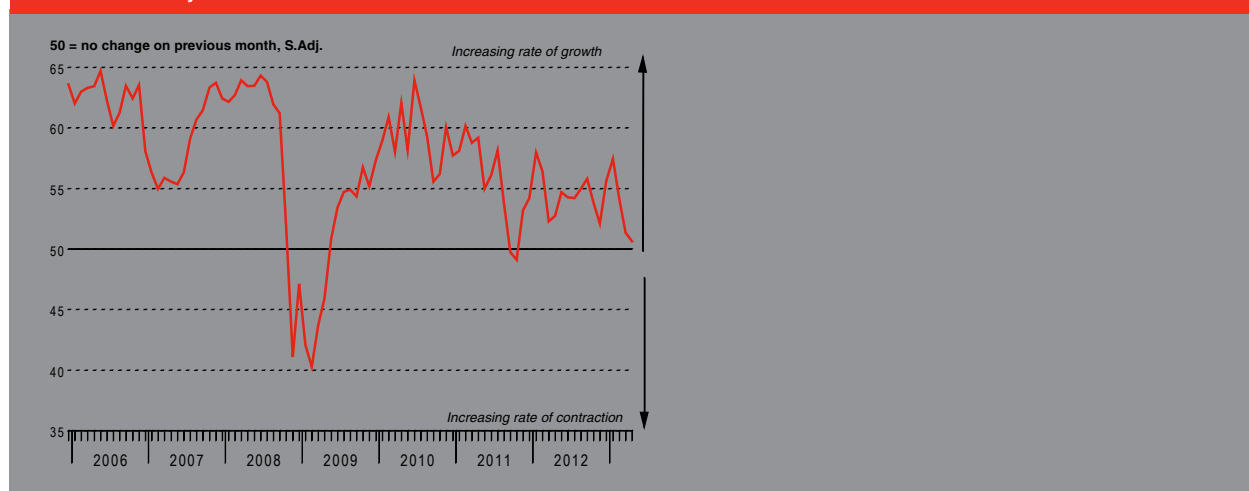
April data pointed to increased backlogs of work in the Indian service sector. The rate of accumulation was, however, fractional and the slowest in the current five-month sequence of expansion. Panellists stated that delayed payment from clients had resulted in higher levels of unfinished business.

Input prices in the Indian service sector increased during April. The rate of cost inflation remained solid, but eased from March. Exactly 8% of monitored companies signalled higher prices paid for inputs, while the majority (90%) indicated no change. Anecdotal evidence suggested that raw material, petrol and labour costs had all increased. Cost inflation has now been recorded for more than four years.

Output prices also increased, extending the current inflationary sequence to 30 months. The rate of charge inflation was, however, moderate and the slowest in the sequence. Almost 6% of monitored companies indicated higher prices charged, citing increased transport and input costs.

Companies operating in the Indian service sector remained optimistic towards output growth in the short-term. The degree of positive sentiment was little-changed from March and remained strong. Surveyed firms expect increased marketing, maintained brand reputation and forecasts of strong demand to lead to increased activity in the upcoming year. Optimism has been signalled in each month since the survey started in December 2005.

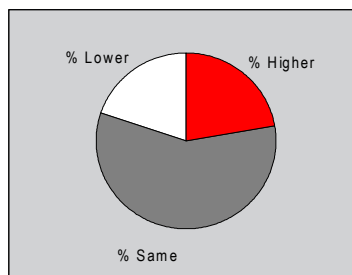
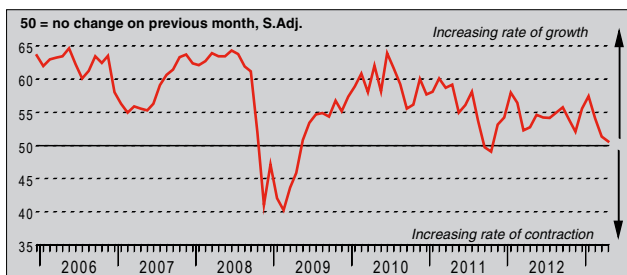
Business Activity Index



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

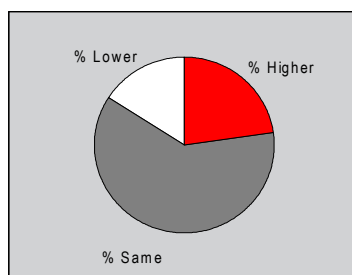
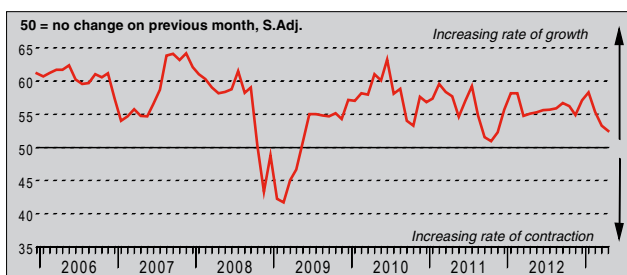
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Indian service sector rose during April, amid reports of higher levels of incoming new work. That said, the rate of expansion was marginal and the slowest in the current one-and-a-half year sequence of growth, with panel members indicating that extreme weather and challenging market conditions had resulted in weaker growth. Moreover, the seasonally adjusted Business Activity Index was well below the long-run series average.

New Business Index

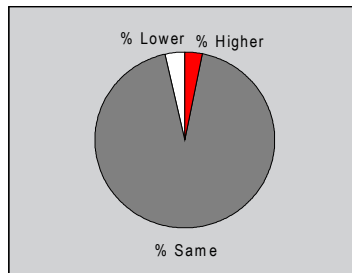
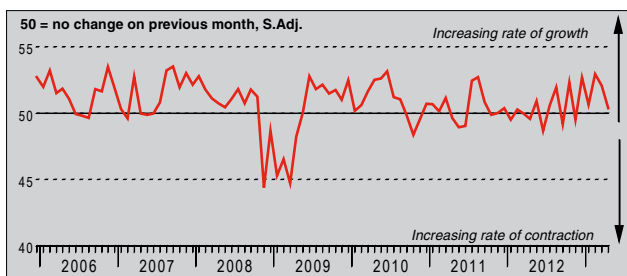
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Service providers in India indicated that total new orders increased during April, marking a 48-month sequence of expansion. Nevertheless, the rate of growth was moderate and the slowest since November 2011 as market conditions proved to be increasingly challenging especially when compared to earlier in the year. Almost 23% of panellists indicated higher levels of incoming new work, citing firm demand and maintained quality of services. Conversely, 16% of respondents noted a fall.

Outstanding Business Index

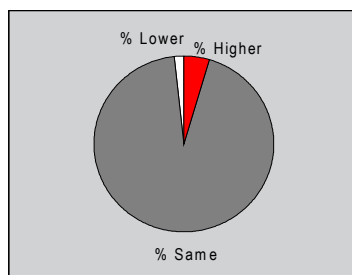
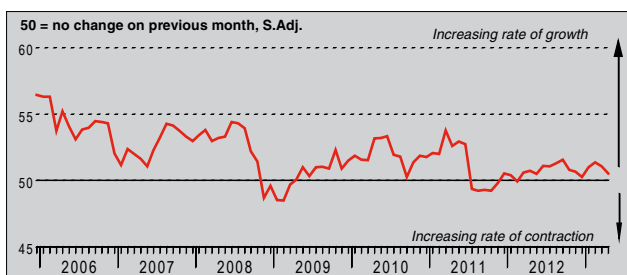
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



April data signalled that backlogs of work in the Indian service sector rose, extending the current sequence of growth to five months. However, the rate of accumulation, as indicated by the Outstanding Business Index adjusted for seasonal variations, was fractional and the slowest in the sequence. Anecdotal evidence suggested that unfinished business increased in tandem with delayed payments from clients.

Employment Index

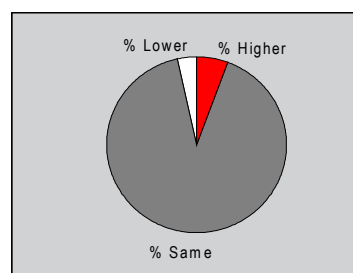
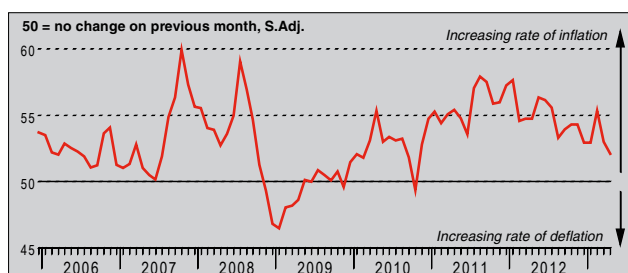
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



As has been the case since March 2012, employment levels in the Indian service sector rose during April. The rate of job creation eased from March and remained modest. Almost 5% of surveyed firms reported increased employee headcounts and mentioned that hiring reflected activity growth. Concurrently, nearly 94% of panellists indicated no change in workforce levels from one month previously.

Prices Charged Index

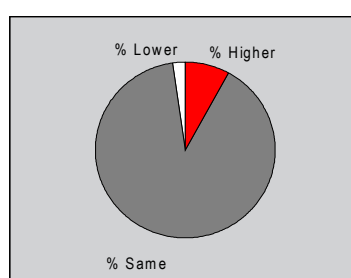
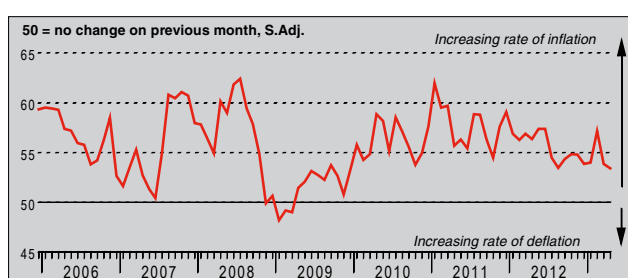
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by companies operating in the Indian service sector increased for the thirtieth successive month in April. Nonetheless, the rate of inflation was moderate and the slowest in that sequence. Whereas 6% of panel members indicated higher average selling prices, the vast majority (90.9%) reported no change. Among other factors, service providers commented on increased transport and input costs.

Input Prices Index

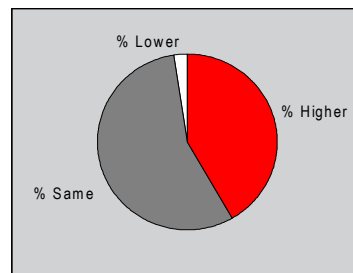
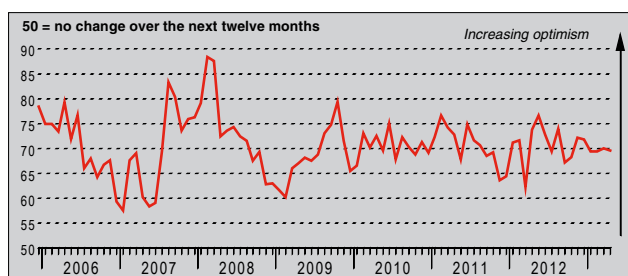
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Services companies in India signalled higher prices paid for inputs during April. The rate of inflation eased slightly from March, but remained solid. Exactly 8% of monitored firms reported increased input prices, mentioning that raw material, petrol and labour costs all rose. Average input prices have increased throughout the past 49 months.

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?



Indian service sector companies remained optimistic during April. The degree of positive sentiment was strong and little-changed from March, with almost 42% of respondents indicating that business activity is anticipated to be higher in 12 months' time. Anecdotal evidence suggested that increased marketing, forecasts of firm demand and maintained brand reputation are expected to lead to activity growth in the upcoming year.

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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