HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 10:30 (MUMBAI), 5 June 2013

HSBC India Services PMI™

Business activity expands at fastest pace in three months

Key findings:

- Output and new orders both increase solidly
- Employment rises for fifteenth month running
- Input and output price inflation ease further

Output growth in the Indian service sector picked up in May, backed up by a solid rise in incoming new business. Consequently, firms hired additional staff, marking a 15-month sequence of job creation. Meanwhile, input and output price inflation both eased for the third month running. Looking ahead, business confidence jumped to the highest level in five months, amid evidence of a brighter outlook for the wider economy.

The seasonally adjusted HSBC Services Business Activity Index posted 53.6 in May, up from 50.7. The latest reading pointed to a solid expansion in output, one that was the fastest in three months. Monitored companies indicated that output growth reflected higher volumes of incoming new work. Business activity has now increased for 19 successive months.

New orders placed at services firms in India rose for the forty-ninth month running in May. The rate of expansion was solid and faster than in April. Anecdotal evidence suggested that demand had improved and market conditions were better.

Subsequently, service providers hired additional staff in May. But, with 4% of survey participants reporting higher payroll numbers and the vast majority (94%) signalling no change, the overall rate of job creation was slight and unchanged from April. Payroll numbers have increased in each month since March 2012.

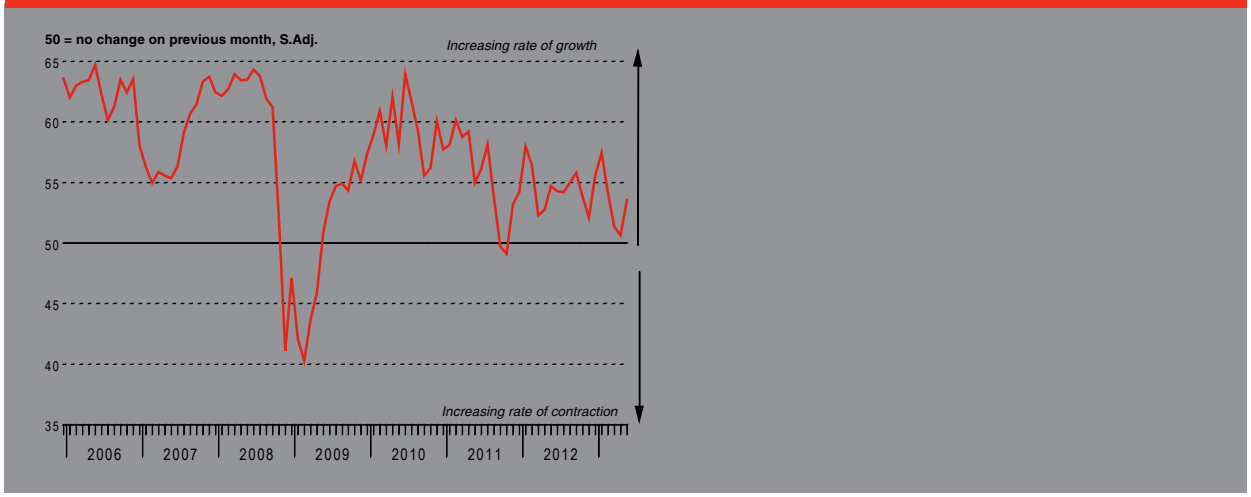
May data indicated that backlogs of work in the Indian service sector rose, extending the current period of accumulation to six months. Despite accelerating since April, the rate of increase remained slight. Panellists commented that unfinished business levels were accumulated in tandem with delayed payments from clients.

Input prices in the Indian service sector rose during May, amid evidence of higher raw material, fuel and labour costs. That said, the overall rate of cost inflation was moderate and the weakest since November 2009. Furthermore, the index was well below the long-run series average. Cost inflation has now been registered for 50 successive months.

Service providers in India attempted to partly offset increased cost burdens in the form of higher output prices during May. Nonetheless, the rate of charge inflation was slight and the weakest in the current 31-month inflationary sequence. Panellists suggested that competitive pressures had restricted their pricing power.

Continuing the trend that has been observed in each month since the survey started in December 2005, optimism was signalled by service providers in India during May. The level of positive sentiment was at a five-month high. Almost 44% of monitored companies expect overall activity to be higher in the coming year. This compares with 2% that anticipate a contraction. Panellists expect that better economic conditions combined with increased marketing and the introduction of new services would lead to higher customer numbers.

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.

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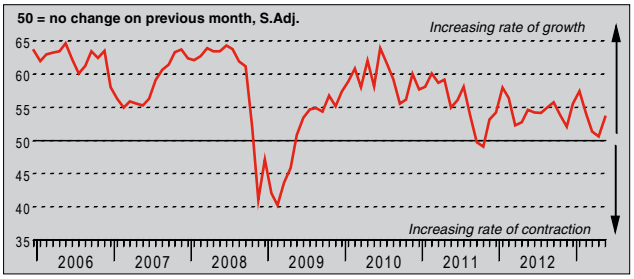
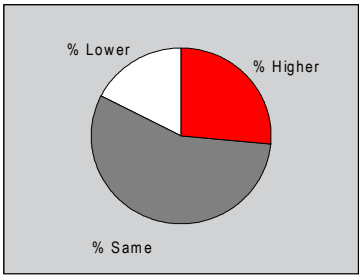
Business Activity Index

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.

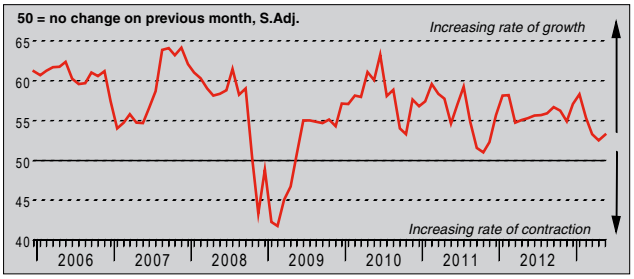


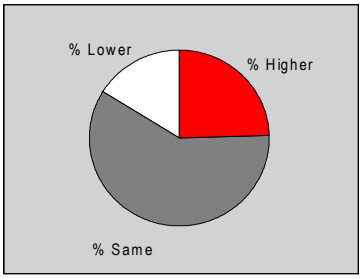


Companies operating in the Indian service sector signalled increased business activity during May, marking a 19-month sequence of growth. The overall rate of expansion was solid, and the fastest since February. Around 27% of service providers indicated higher levels of output, citing new business growth. Conversely, almost 18% of firms reported lower levels of 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.

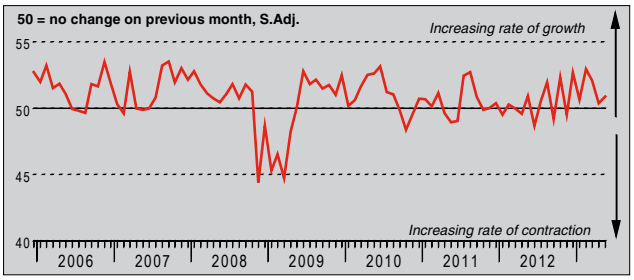


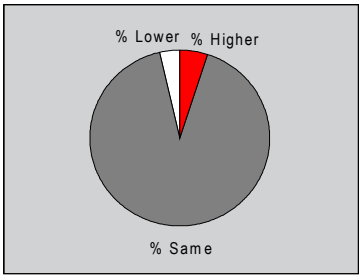


New orders in the Indian service sector rose for the forty-ninth successive month in May. The rate of expansion was solid, and accelerated from April. That said, the New Business Index adjusted for seasonal factors posted below the long-run series average (56.7). Anecdotal evidence suggested that demand had strengthened over the month. Some companies also mentioned the launch of new services at their units.

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.

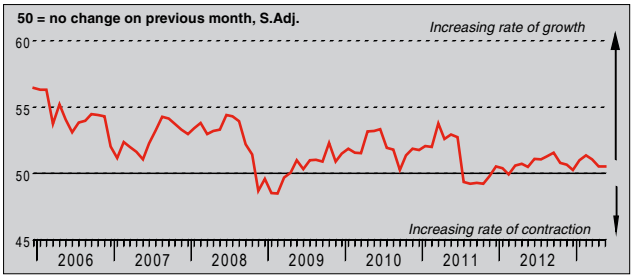




Backlogs of work in the Indian service sector rose during May, amid reports of delayed payments from clients. But, with 5% of monitored firms reporting higher levels of business outstanding and the vast majority (91%) indicating no change, the overall pace of accumulation was only slight. Outstanding business levels have increased in each month since last December.

Employment Index

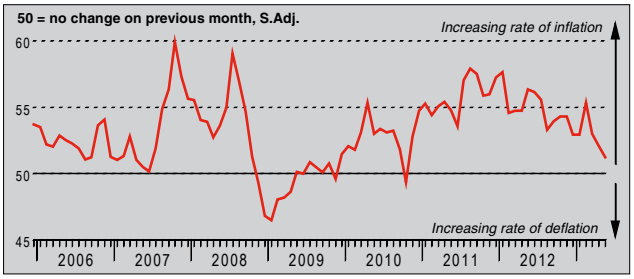
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

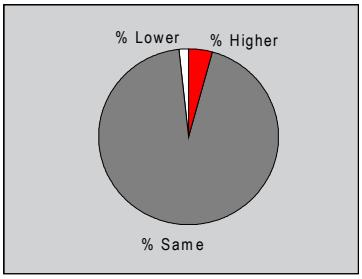


For the fifteenth successive month, staffing levels in the Indian service sector increased during May. The overall rate of job creation was, however, slight and unchanged from April. Furthermore, the seasonally adjusted Employment Index was below the series average. Just over 4% of the survey panel reported higher payroll numbers, and linked hiring to new business growth.

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.

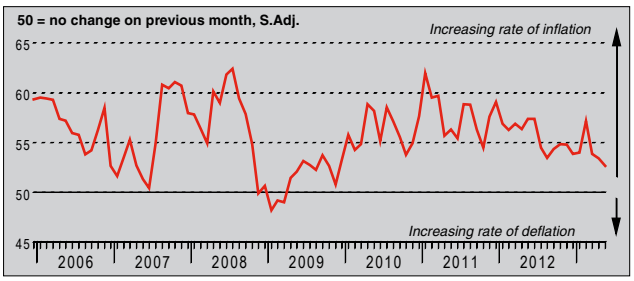


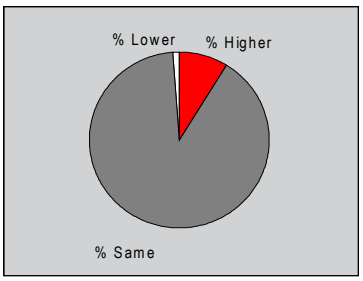


Indian services companies signalled higher prices charged in May, taking the current inflationary period to 31 months. The rate of charge inflation was, however, modest and the weakest in that sequence. Around 4% of the survey panel reported higher output prices, while the vast majority (94%) indicated no change from April. Panel members stated that input costs had increased over the month, but mentioned that competitive pressures had limited their pricing power.

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.

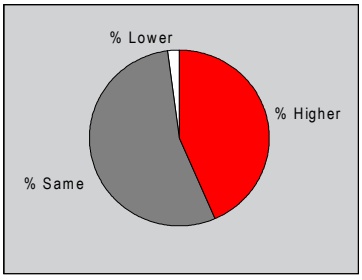




Average prices paid by Indian services companies rose during May, extending the current inflationary sequence to 50 months. That said, the rate of cost inflation was moderate, and the weakest since November 2009. Furthermore, the seasonally adjusted Input Prices Index fell for the third month running, and was well below the long-run series average (55.8). Panellists indicated that raw material, fuel and labour costs all had increased.

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?



Positive sentiment towards activity growth was signalled by service providers in India during May. Moreover, the level of confidence remained strong and was at a five-month high. Companies anticipate that increased marketing, the introduction of new services and forecasts of stronger demand will lead to higher business activity in the upcoming year. Firms also expect the global economy to improve. Optimism has been signalled in each month since the survey began in December 2005.

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.

Warning