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HSBC India Services PMI™

Service sector output contracts for first time since October 2011

Key findings:

- Moderate decrease in business activity
- Incoming new work falls, ending 50-month growth period
- Input price inflation weakest in over three-and-a-half years

Companies operating in the Indian service sector signalled lower output levels in July, amid reports of falling new business and a difficult economic climate. Although moderate, the latest contraction in business activity was the first recorded since October 2011. Concurrently, incoming new work fell for the first time in 51 months, with sector data indicating that Transport & Storage firms registered the fastest drop.

July's seasonally adjusted HSBC Services Business Activity Index registered below the 50.0 no-change mark for the first time since October 2011. At 47.9, down from 51.7 in the previous month, the latest reading was the lowest recorded since April 2009 and indicative of a moderate contraction. A difficult economic climate and falling new business were the main reasons cited by panellists reporting lower output volumes. Sector data indicated that the Transport & Storage and Renting & Business Activities sub-sectors were the main drivers of the overall decline.

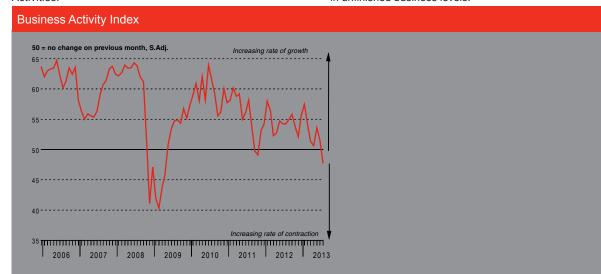
New business received by Indian services firms fell in July, ending a 50-month expansionary sequence. According to monitored companies, intense competitive pressures, weaker demand and an increasingly fragile domestic economy were the main reasons behind the latest contraction in incoming new work. The fastest drop in new business was registered at Transport & Storage, followed by Renting & Business Activities.

Reflective of higher prices paid for inputs, services firms in India raised their tariffs again in July. Nonetheless, the rate of increase was slight and the weakest in the current 33-month period of inflation. Similarly, input costs rose at the slowest pace in over three-and-a-half years. Anecdotal evidence suggested that fuel, labour and raw materials all increased in price during July.

Services firms continued to signal an optimistic outlook with regards to activity in 12 months' time, albeit to the lowest degree in ten months. Panel members suggested that price discounting will be offered as part of efforts to attract new business and that marketing is projected to increase. A number of firms were, however, concerned about current economic conditions and the underlying health of the Indian economy.

Job creation was recorded in July, but the overall rate of employment growth was modest and little-changed from June. Higher payroll numbers were registered at Renting & Business Activities, Hotels & Restaurants, Financial Intermediaries and 'Other Services'. Panel members reporting higher staffing levels commented on increased business requirements.

Finally, backlogs of work in the Indian service sector increased for the eighth successive month in July, amid reports of delayed payment from clients. The rate of accumulation was, however, slight as the vast majority of respondents signalled no change in unfinished business levels



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.

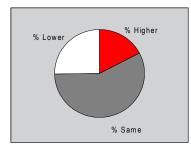




Business Activity Index

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.



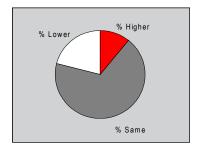


Business activity in the Indian service sector fell for the first time in 21 months during July. The rate of contraction was moderate, though the fastest in over four years. One-quarter of panellists reported lower output, citing falling new business and a fragile domestic economy. Business activity fell in Renting & Business Activities and the Transport & Storage sectors, while Hotels & Restaurants recorded stagnation. Output growth was registered in the Post & Telecommunication, Financial Intermediaries and 'Other Services' categories.

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



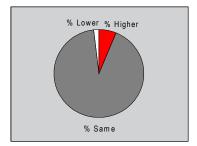


Ending a 50-month expansionary sequence, new business received by Indian services firms decreased moderately in July. Sector data highlighted lower volumes of incoming new work in both the Renting & Business Activities and Transport & Storage sub-sectors, with the fastest drop noted in the latter. Conversely, Post & Telecommunication, Hotels & Restaurants and Financial Intermediaries companies all recorded growth. Anecdotal evidence pointed to increased competition, weaker demand and tough economic conditions.

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.



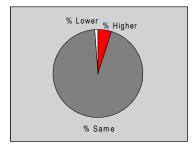


Backlogs of work in the Indian service sector increased in July, as has been observed in each month since December 2012. The rate of accumulation was, however, only slight as the vast majority of respondents indicated no change in unfinished business levels since June. Surveyed companies commented that outstanding business volumes were accumulated in line with delayed payment from clients. From all six monitored categories, four recorded higher backlogs of work, with the fastest accumulation noted at Financial Intermediaries.

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).



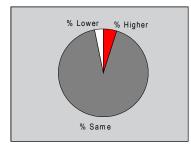


July data pointed to employment growth in the Indian service sector, with the seasonally adjusted Employment Index posting above the 50.0 no-change mark for the seventeenth consecutive month. However, the overall rate of job creation was modest and little-changed from June. Employment growth was registered in the Renting & Business Activities, Hotels & Restaurants, Financial Intermediaries and 'Other Services' categories. Meanwhile, workforce numbers at Post & Telecommunication and Transport & Storage were broadly unchanged.

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.

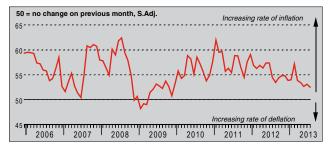




Indian services companies raised their prices charged in July, amid evidence of higher input costs. However, competitive pressures reportedly weighed on pricing power and average selling prices rose only slightly. Furthermore, the seasonally adjusted Prices Charged Index posted well below the long-run series average and was at a 33-month low. Weaker rates of charge inflation were recorded in the Financial Intermediaries, Renting & Business Activities and Transport & Storage categories, while price discounting was registered in the Post & Telecommunication subsector.

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.



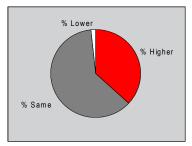


Services firms across India reported higher prices paid for inputs in July, as has been the case in each month since April 2009. That said, the rate of cost inflation was moderate and eased to the weakest in over three-and-a-half years. Panellists indicated that fuel, labour and a range of raw materials had increased in price over the month. All six monitored sub-categories recorded higher input costs, with the fastest increase noted at Hotels & Restaurants.

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?





Companies operating in the Indian service sector signalled optimism in July, with all six monitored sub-sectors expecting output growth in the year ahead. Despite remaining strong, the degree of positive sentiment eased to the weakest in ten months and the Business Expectations Index posted below the series average. Panellists expect planned increases in marketing and price discounting to lead to higher business activity over the course of the next 12 months, although a number were concerned about the underlying health of the domestic economy.

Notes on the Data and Method of Presentation

The India Services PMI™ covers hotels & restaurants, transport & storage, financial intermediation, renting & business activities, post & telecommunications and other services.

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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