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# HSBC India Services PMI™

Business activity falls for second successive month in August

#### **Key findings:**

- Service sector output contracts at moderate pace
- Sharpest decreased in new business since March 2009
- · Input cost inflation picks up pace

Output in the Indian service sector fell for the second consecutive month in August, reflecting a solid decline in new business levels and tough economic conditions. On the price front, input costs rose at the sharpest rate in six months, whereas charges were raised slightly.

The seasonally adjusted HSBC Business Activity Index fell from 47.9 to 47.6 in August, indicating a further, albeit moderate, contraction of service output across India. Out of the six monitored sub-categories, four recorded a reduction in business activity, the exceptions being Post & Telecommunication and Financial Intermediation. The fastest contraction was registered at Transport & Storage companies.

The reduction in service sector output during August reflected a continued downturn in new business levels. Latest data highlighted a solid decline in incoming new work and one that was the quickest in almost four-and-a-half years. Survey participants suggested that an uncertain economic outlook had discouraged clients.

Four of the six monitored sub-sectors posted lower new business. Financial Intermediation and Post & Telecommunication firms signalled growth.

Falling volumes of new work contributed to the first decline in unfinished business levels since November 2011. The latest contraction in backlogs of work was, however, only slight as the vast majority of survey participants reported no change in their

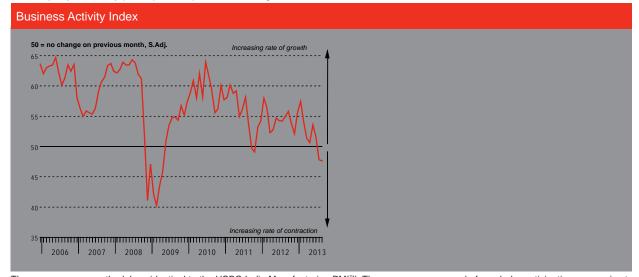
work outstanding since July.

Sustaining a period of job creation that started in March 2012, service sector employment rose in the latest month, but only fractionally. Panellists signalling job creation commented on increased business requirements, whereas firms reporting job cuts highlighted the non-replacement of voluntary leavers and skilled labour shortages.

Input cost inflation accelerated in August, amid reports of higher prices paid for a range of raw materials, fuel, transport and labour. With all six service categories recording increased cost burdens, the overall rate of inflation was robust and the strongest in six months. The quickest cost rises were noted at both Hotels & Restaurants and Transport & Storage companies.

Concurrently, average tariffs rose at a faster pace in August. The rate of charge inflation was, however, marginal and weaker than the series average. Output prices increased in five of the six monitored categories, the exception being Post & Telecommunication. Renting & Business Activities firms recorded the sharpest rate of charge inflation.

Indian service providers remained optimistic about the prospects for business activity at their units over the course of the next year. However, the index measuring business sentiment fell for the third consecutive month and was at its lowest mark in 17 months.



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.

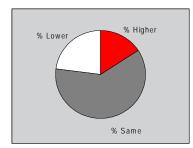




#### **Business Activity Index**

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.



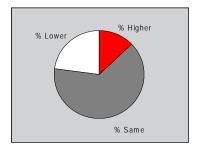


Service sector output across India fell for the second consecutive month in August, amid evidence of lower new business volumes and weak economic conditions. The seasonally adjusted Business Activity Index dropped to a 52-month low and was consistent with a moderate contraction overall. Four of the six monitored sub-categories posted lower output, with the fastest decline noted at Transport & Storage firms. Moderate growth was recorded in both the Financial Intermediation and Post & Telecommunication sectors.

#### 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.



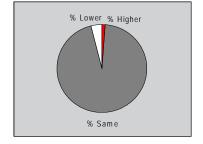


Service providers in India reported lower levels of incoming new work during August. The rate of contraction was solid and the fastest in almost four-and-a-half years. Sector data highlighted decreases in four of the six monitored categories, the exceptions being Financial Intermediation and Post & Telecommunication. Almost 23% of panellists signalled falling new business levels, citing subdued client confidence 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.



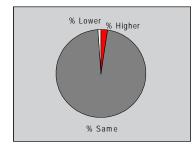


For the first time since November 2011, unfinished business levels in the Indian service sector fell during August. That said, the overall rate of contraction was slight, with the vast majority of surveyed firms reporting no change in backlogs of work from one month previously. Companies signalling lower volumes of work in hand largely commented on a lack of pressure on operating capacity.

## 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).

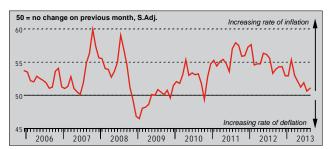


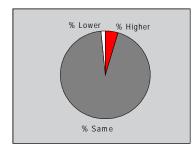


Workforce numbers in the Indian service sector were fractionally higher in August, extending a period of job creation that started in March 2012. Companies reporting employment growth commented on increased business requirements, whereas firms noting job losses highlighted the non-replacement of voluntary leavers and a shortage of skilled labour.

#### 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.



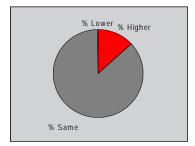


Prices charged by companies operating in the Indian service sector rose in August, continuing a trend that started in November 2010. Despite being marginal, the rate of charge inflation accelerated slightly since July. Anecdotal evidence suggested that selling prices were raised in line with increased input costs. Sector data showed higher output charges in five of the six monitored sub-categories, led by Renting & Business Activities. A marginal reduction was reported by Post & Telecommunication firms.

#### 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.



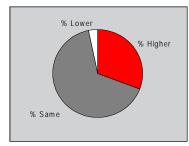


Input costs rose at a robust and accelerated pace in August, with 13% of panellists indicating higher prices paid for a range of raw materials, fuel transport and wages. Moreover, the seasonally adjusted Input Prices Index was at a six-month high. Input cost inflation was recorded across all six service categories and was strongest at Hotels & Restaurants and Transport & Storage firms. Sustained cost inflation in the Indian service economy has now been recorded for almost four-and-a-half 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?





Positive sentiment was signalled by Indian services companies in August, as has been the case throughout the series history. Almost 31% of panellists anticipate higher output in the year ahead, compared with 37% in July. Subsequently, the degree of optimism recorded was the weakest in 17 months. Monitored firms expect overall activity in the coming year to expand in line with forecasts of better economic conditions and increased advertising.

### Notes on the Data and Method of Presentation

The India Services PMITM 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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