HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 10:30 (MUMBAI), 4 October 2013

HSBC India Services PMI™

Business activity declines at fastest pace in four-and-a-half years

Key findings:

- Service sector output falls sharply
- Fastest contraction of new business since February 2009
- Employment decreases for first time in 19 months

Business activity in the Indian service sector deteriorated in September, reflecting a further contraction of new order levels. Output fell sharply and at the quickest pace in four-and-a-half years, while the decline in new business was the most pronounced since February 2009. Consequently, companies cut their workforce numbers for the first time in 19 months.

The seasonally adjusted HSBC Business Activity Index dipped from 47.6 in August to 44.6 in September, with five of the six sectors covered by the survey posting lower output (the exception being Post & Telecommunication). The latest reading was consistent with a sharp contraction in business activity and one that was the fastest since March 2009.

Underlying the fall in output was a marked drop in new business received by Indian services companies. Incoming new work contracted at the sharpest pace since February 2009, and for the first time in the survey history all six sub-sectors recorded lower new orders. Panellists linked the decline – the third in consecutive months – to weaker demand and a difficult economic climate. Sector data highlighted the fastest fall in new business at Renting & Business firms.

In response to lower new business volumes, workforce numbers were reduced in September. Despite falling at a fractional pace, the latest decline ended a sequence of job creation that had lasted for one-and-a-half years. Three of the six surveyed categories recorded job shedding, namely Hotels & Restaurants, Post & Telecommunication and Transport & Storage.

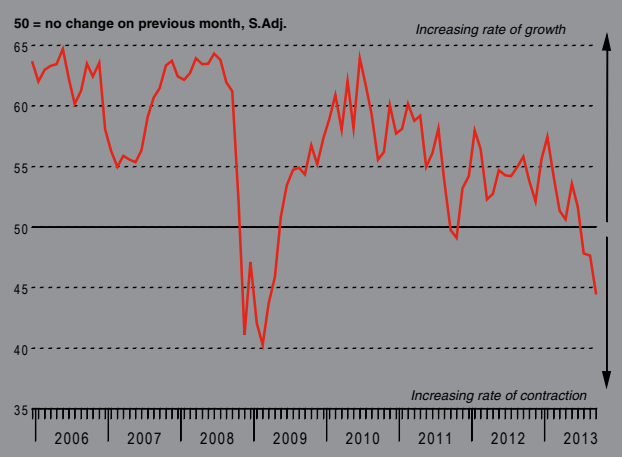
September data pointed to a weaker degree of positive sentiment in the Indian service sector, with the index measuring business sentiment dropping to its lowest mark since February 2009. Although panel members expressed optimism for output growth in the coming year, concerns about exchange rate fluctuations weighed on confidence.

Evidence of spare capacity was signalled by Indian service providers in September, as outstanding business levels fell for the second month running. Furthermore, the rate of backlog depletion accelerated to the quickest in four-and-a-half years. Anecdotal evidence highlighted a lack of new projects as the main factor behind the fall in unfinished business.

Amid reports of higher prices paid for fuel, food and transport, average input costs rose in September. Although solid, the rate of cost inflation eased since August. All six sectors covered by the survey recorded higher input prices, led by Hotels & Restaurants. Purchase costs across the Indian service sector as a whole have increased in each month since April 2009.

Subsequently, output prices were raised in September, extending the current sequence of charge inflation to 35 months. The rise in average prices charged was, however, slight and weaker than the series average. Apart from Post & Telecommunication, higher output prices were recorded across the services economy in the latest month.

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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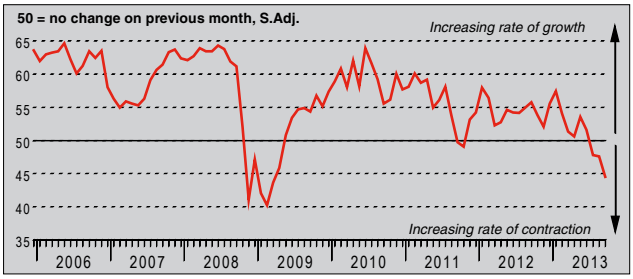
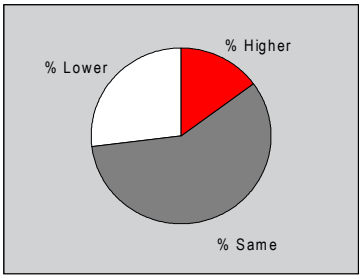
Business Activity Index

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.

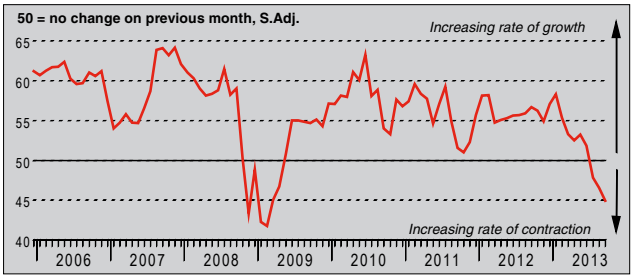


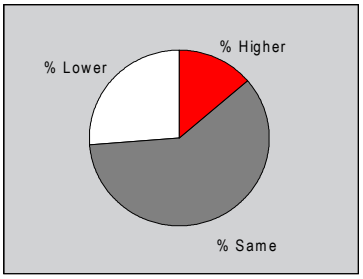


Service sector output across India fell at a sharp and accelerated pace in September, with the seasonally adjusted Business Activity Index dropping to its lowest mark in four-and-half years. Five of the six surveyed categories posted lower output in the latest month, the exception being Post & Telecommunication. Hotels & Restaurants and 'Other Services' companies recorded the sharpest declines. Anecdotal evidence highlighted lower levels of incoming new work and an uncertain economic outlook.

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.

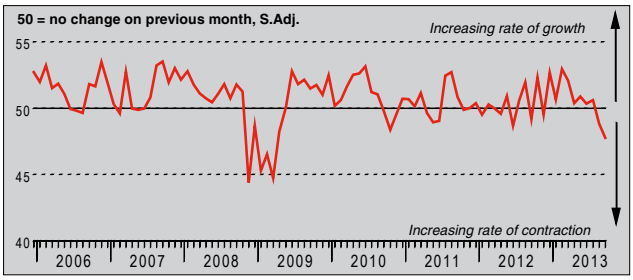


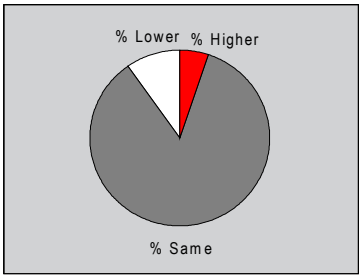


New business received by Indian service providers fell for the third month running in September, amid evidence of weaker demand and a difficult economic climate. The overall rate of contraction was sharp and the quickest since February 2009. Furthermore, for the first time in the survey history all six sub-sectors posted lower new order levels. The worst performing category was Renting & Business Activities, followed by Hotels & Restaurants and Financial Intermediation.

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.

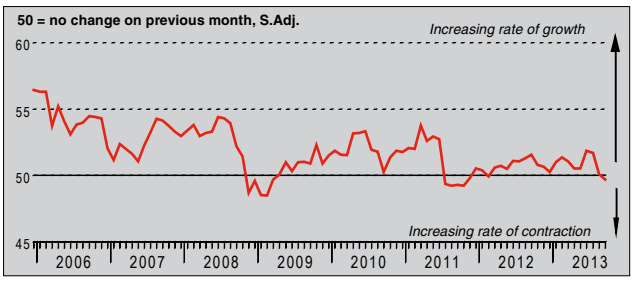




Companies operating in the Indian service sector signalled lower levels of incoming new work for the second successive month in September. Despite being moderate, the rate of contraction was the fastest in four-and-a-half years. Service providers reporting backlog depletion commented on a lack of new projects. Five of the six sectors covered by the survey recorded falling unfinished business levels, with the quickest decline noted at Financial Intermediation.

Employment Index

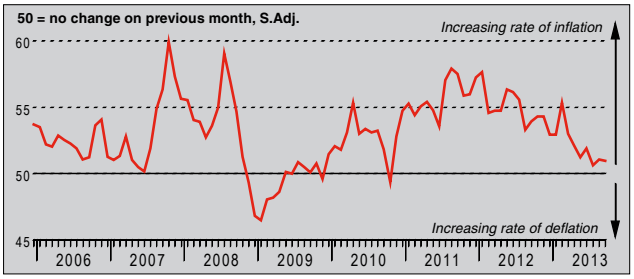
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

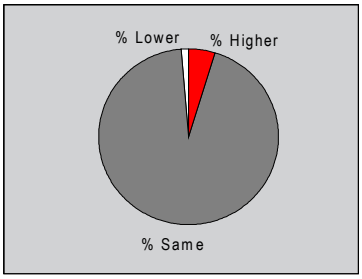


Workforce numbers fell in September, ending a sequence of job creation that had lasted for one-and-a-half years. However, the pace of job shedding as indicated by the Employment Index adjusted for seasonal factors was only marginal. Among companies reporting lower staffing levels, falling new business volumes was mentioned. Sector data pointed to job cuts in the Hotels & Restaurants, Post & Telecommunication and Transport & Storage service sectors. Employment growth was recorded elsewhere.

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.

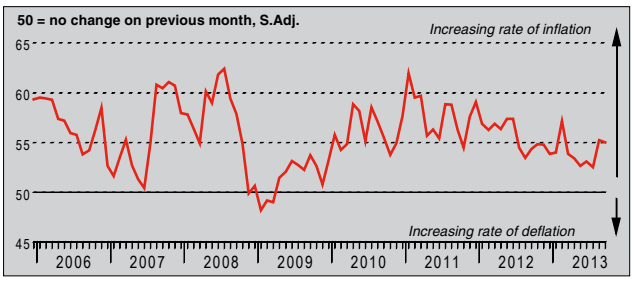


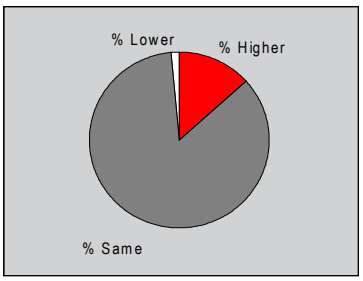


Extending the current sequence of charge inflation to 35 months, selling prices rose in September. That said, the seasonally adjusted Prices Charged Index posted below the long-run series average and was indicative of a marginal pace of increase. Companies reporting higher average prices charged mentioned that input costs rose in the latest month. Five of the six monitored service sub-sectors indicated that output prices increased, the exception being Post & Telecommunication.

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.

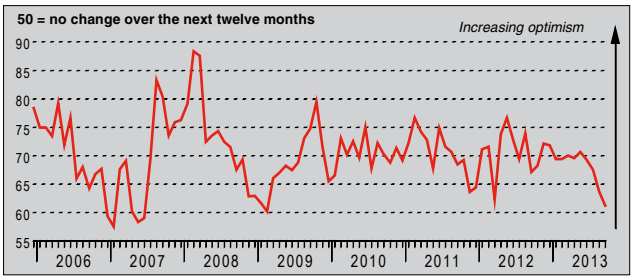


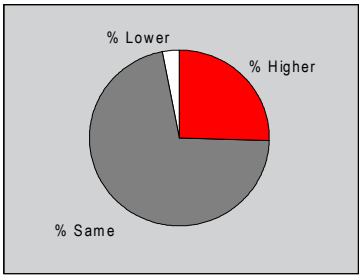


Amid evidence of higher fuel, food and transport costs, average purchase prices in the Indian service sector increased in September. The overall rate of cost inflation was solid, albeit slower than in August. Around 13% of panellists reported higher input prices, compared with 2% that noted a reduction. Sector data indicated that all six monitored categories recorded higher purchase costs, led by 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?





Indian services firms remained optimistic regarding activity levels in the upcoming 12 months. Companies expect business activity to increase after the elections and there were also mentions of hopes for an improvement in the country's economy. Nonetheless, the Business Expectations Index dipped to its lowest reading since February 2009, as panellists highlighted concerns over recent exchange rate fluctuations. Confidence has deteriorated in each of the past four months.

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 "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