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## HSBC India Services PMI (with Composite PMI data)

PMI data pointed to robust growth of Indian services and composite output

### Summary

The seasonally adjusted Business Activity Index registered 54.9 in August, up from 54.7 in the previous month. The latest reading pointed to a robust rise in Indian service sector output. Meanwhile, manufacturing production grew markedly since July. Reflecting the latest sector data, the headline HSBC India Composite Output PMI fell slightly, but remained at a level consistent with a strong expansion of overall activity levels.

Incoming new business to India's service firms grew strongly in August. The primary factor underlying new order growth was an improvement in economic conditions. Respondents also noted successful advertising campaigns and strong reputations for quality as contributors to the increase. Concurrently, new work placed with Indian manufacturers expanded at a considerable pace. As a result, the Composite New Orders Index signalled a marked increase in total new work, albeit the lowest for three months.

Greater activity requirements placed pressure on capacities during the latest survey period. Increasing volumes of outstanding business at Indian service providers accumulated for the fourth month in a row, and at a slightly faster pace. In contrast, workloads in the manufacturing industry remained manageable, with volumes of unfinished business falling fractionally. The Composite Backlogs of Work Index was unmoved since July, showing another slight overall accumulation of work-in-hand.

Capacity constraints led Indian service companies to take on more personnel in August. The sector's labour force has grown during every month since April, although only weakly. That said, the latest increase was the most marked for ten months. Manufacturing employment, on the other hand, continued to fall at a marginal pace due to cost pressures. Consequently, the Composite Employment Index posted at a similar level to July, pointing to a marginal rise in total staffing numbers.

Indian service providers held on to a degree of pricing power in August. Charges were raised for the second successive month, primarily in order to defend profit margins from rising costs or to take advantage of firmer market demand. However, inflation eased slightly since July to only a marginal pace. Meanwhile, manufacturers generally left their tariffs unchanged. The Composite Output Prices Index indicated only a meagre rate of inflation overall.

Service providers and manufacturers reported further input cost inflation in August. Service sector input costs increased at a modest rate that was the mildest for three months, while manufacturers' purchasing costs grew at a considerable pace that was the fastest for nearly a year. Reflecting this, the Composite Input Prices Index rose fractionally to signal robust overall inflation.

### Comment

Commenting on the India Services and Composite PMI data, Robert Prior-Wandesforde, Senior Asian Economist at HSBC said:

*"The key business activity index rose for the sixth consecutive month in August, reaching its highest level since September last year. At 54.9 it is consistent with robust, if not startling, growth of output in India's all-important service sector. Business expectations showed the more impressive improvement, jumping to 73.1 from 68.8 in July and a twenty-month low of 60.3 in February, while services employment rose modestly again.*

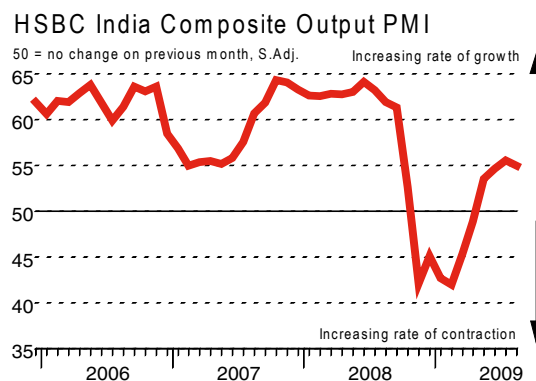
*"The input and output price indices, although up on January's lows, suggest service sector price pressures remain muted. This contrasts with the strong, commodity-related pick up in manufacturing input prices.*

*"A small drop in the August composite (manufacturing and services) PMI is a little disappointing, although we shouldn't necessarily read too much into this. It is certainly too early to call a change in trend."*

### Key points

- India Services Activity Index at 54.9, up from 54.7 in July.
- India Composite Output Index at 55.0, down from 55.6 in July.
- Service sector employment rose at slightly faster pace.

### Historical overview



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**Notes to Editors:**

The HSBC India Services PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC India Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Indian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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