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HSBC India Services PMI (with Composite PMI data)

Indian service sector output growth remained solid in September

Summary

Down slightly from 54.9 in August to 54.4 in September, the headline seasonally adjusted Business Activity Index pointed to another solid increase in Indian service sector output. Reports attributed the latest expansion to new business growth. Meanwhile, manufacturing output rose at a sharp pace that was the fastest for four months. The headline HSBC India Composite Output Index showed a marked and accelerated increase in all-sector output, climbing slightly since August.

Incoming new work in the service sector rose at a robust pace in September, albeit marginally slower than in the previous survey period. Panellists have noted greater demand for their services for five consecutive months. September's growth was linked to improved economic conditions, good company reputations and successful advertising campaigns. While the expansion in services new business eased slightly, new orders taken by manufacturers rose at a faster pace. Consequently, the Composite New Orders Index climbed slightly from August's three-month low to indicate another strong increase in total new work.

Higher workloads resulted in another build-up of unfinished business at Indian service providers during the latest survey period. Backlogs of work rose for the fifth straight month and at a moderate pace. However, the rate of accumulation eased since August. Outstanding work at manufacturers was broadly unchanged on the month. Reflecting the sector data, the Composite Backlogs of Work Index fell to a level consistent with only a modest rate of growth.

Service companies continued to hire more workers during September in order to meet higher workloads, extending the current period of expansion to six months. That said, the rate of growth was only slight and marginally weaker than in the previous month. In the manufacturing industry, staffing numbers were largely maintained since August. The Composite Employment Index was unmoved in September and continued to signal a weak rate of overall job creation.

Input price inflation accelerated in September, driven by higher fuel, raw material and wage costs. Greater food prices were particularly noted by firms in the Hotels & Restaurants sector, and diesel costs by companies in the Transport & Storage industry. The latest round of inflation was solid, but remained weaker than its long-run trend. Input cost inflation also picked up in the manufacturing sector. Data showed a rapid rate of increase that was the most marked for three years. Consequently, the Composite Input Prices Index rose for the eighth month running to a level indicative of a considerable rate of inflation.

Competition prevented many Indian service providers from raising their tariffs in September. Charges were broadly unchanged on the month as a result. Where output prices were increased, respondents linked this to stronger demand and the need to protect profit margins from rising costs. Manufacturers reported an improvement in their pricing power during the latest survey period, and consequently factory gate prices grew at a moderate pace. The Composite Output Prices Index showed a marginally faster, but still mild, rate of overall charge inflation.

Comment

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

"The services PMI has effectively stabilised at reasonable, if not fantastically exciting, levels over the last few months. At 54.4, the business activity index is well above February's low of 40.3 but still very distant from 2008's high of 64.3. The most encouraging aspect of the services release was the further rise in expectations, which is now at its highest level since March 2008. In contrast, employment (50.9), new business (54.7) and outstanding business (51.5) all softened slightly, while more signs of rising price pressures were given by an increase in the input prices balance to 53.8 from 52.3.

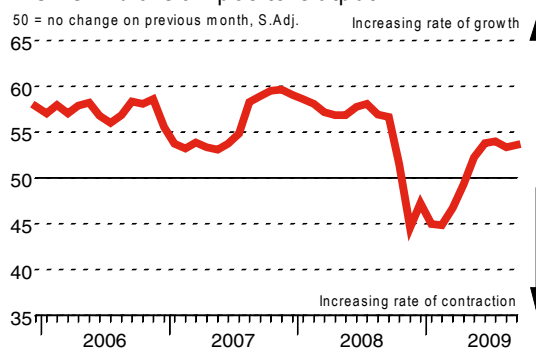
"The composite PMI was virtually unchanged as the improvement in the manufacturing output index was offset by a slight decline in the services activity index. It may be that the drought is beginning to have an impact on both activity and prices. As such, we are happy to stick with our 6.2% GDP growth forecast for 2009/10 (which we have held throughout this year) as well as the call for an 8% wholesale price inflation rate by March next year. As for 2010/11, we continue to expect GDP to expand a healthy 8% as the full impact of the various policy measures come through."

Key points

- India Services Activity Index at 54.4, down from 54.9 in August.
- India Composite Output Index at 55.5, up from 55.0 in August.

Historical overview

HSBC India Composite Output PMI



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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.

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