

HSBC India Services PMI (with Composite PMI data)

Indian service sector growth picked up in October. Employment grew at fastest pace for fourteen months

Summary

After slipping to a three-month low of 54.4 in September, the headline seasonally adjusted HSBC Business Activity Index gained ground in October, registering 56.8 – its highest reading in over a year. The latest figure pointed to a substantial increase in Indian services activity. Reports indicated that activity expanded on the back of greater volumes of new work. Concurrently, Indian manufacturing output expanded for the seventh consecutive month, and at a rapid pace. Reflecting the sector data, the HSBC India Composite Output Index posted a three-month high to show a sharp increase in total private sector activity.

Incoming new business to the Indian service and manufacturing sectors increased at marked rates during October, which panel members attributed to better economic conditions, successful marketing activity and strong reputations for quality. Consequently, the Composite New Orders Index signalled another robust expansion in overall new work.

Indian service sector employment rose further during the latest survey period. Staff were hired at the most marked rate since August 2008 as workloads increased. Employment also expanded at manufacturers, although the rate of job creation was only marginal. The Composite Employment Index rose to its highest level in over a year, indicating a robust enlargement of India's private sector labour force.

Prices charged by Indian service providers continued to rise in October, extending the current period of inflation to four months. Anecdotal evidence indicated that tariffs were raised primarily to protect profit margins. However, the rate of increase remained only mild and far weaker than the pre-crisis trend. Manufacturers also raised their charges at only a marginal pace as output price inflation eased since September. As a result, the Composite Output Prices Index indicated only a slight rise in overall charges.

Indian service firms noted another increase in their input cost burdens in October. Average input prices in the sector have climbed for the past seven months, although the latest round of inflation was only modest. Survey participants principally blamed higher raw material and wage costs for the rise in costs. Input price inflation in the manufacturing industry remained marked, despite easing from September's three-year high. The Composite Input Prices Index fell to a four-month low, but still showed a solid rate of total input cost inflation across India's private sector.

Comment

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

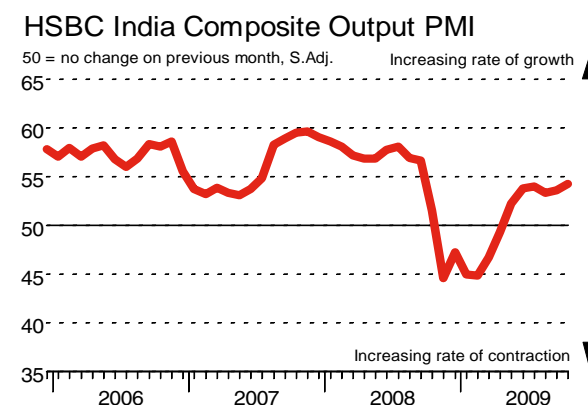
"Having stalled for a few months, the key business activity series of the Services PMI showed an encouraging improvement, rising to its highest level since September last year. At 56.8, the fairly brief history of this series suggests the service sector could be registering double-digit real growth in the not too distant future, compared with 7.7% in the April-June quarter. A strong rise in the expectations index, to what is now a very high level, also bodes well and it is good to see more employers planning to hire."

"With the manufacturing PMI having been essentially flat for six months, it looks increasingly likely that the service sector of the economy is going to take up the running from industry. This fits with our forecasts and we continue to expect 6.2% GDP growth in 2009/10 as a whole, despite a big hit to agriculture from the drought. Our 2010/11 projection is for an 8.5% GDP rise."

Key points

- Output and new business growth accelerated in the service sector, but slowed in the manufacturing industry.
- Overall employment levels expanded at fastest pace for thirteen months.
- Private sector input price inflation eased.

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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