

HSBC India Services PMI (with Composite PMI data)

Services activity growth remained strong in November, despite slowing

Summary

At 55.2 in November, the seasonally adjusted HSBC Business Activity Index for services pointed to a marked expansion of Indian service sector output. However, the index fell slightly since October's thirteen-month high of 56.8, signalling a weakening in the rate of increase. Underpinning the latest rise in business activity was a further expansion of incoming new work. Manufacturing production growth also slowed in November. Reflecting the sector data, the HSBC India Composite Output Index fell to its lowest level since August.

New business received by Indian services firms rose during November, extending the current sequence of expansion to seven months. The increase was strong, and broadly similar to rates recorded over the previous five survey periods. A combination of improved economic conditions, successful promotional activities and good business reputations supported demand, according to anecdotal evidence. Concurrently, new orders at manufacturers rose at the slowest pace of the current eight-month period of growth. The Composite New Orders Index showed a weaker, but still robust, rate of increase overall.

To accommodate higher levels of incoming new work, Indian service and manufacturing firms added to their workforces in November. However, the Composite Employment Index pointed to only a weak pace of all-sector personnel growth.

Input price inflation persisted in the service sector during November, albeit at its mildest rate of the current eight-month sequence. Survey participants cited the main sources of inflation as higher employment expenses and increased prices for medicines and food-related goods. Input cost inflation slowed in manufacturing as well, although the rate of increase was noticeably faster than in the services economy. Consequently, the Composite Input Prices Index indicated a modest pace of overall inflation.

Indian service providers reduced their charges in November, for the first time since April. Companies suggested that competitive pressures suppressed pricing power, forcing them to absorb greater cost burdens themselves. With only 2.4% of firms cutting output prices, the pace of decline was only slight. In contrast, manufacturers raised factory gate prices at an accelerated pace. The Composite Output Prices Index signalled a weak pace of total charge inflation, as has been the case for the past six months.

Comment

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

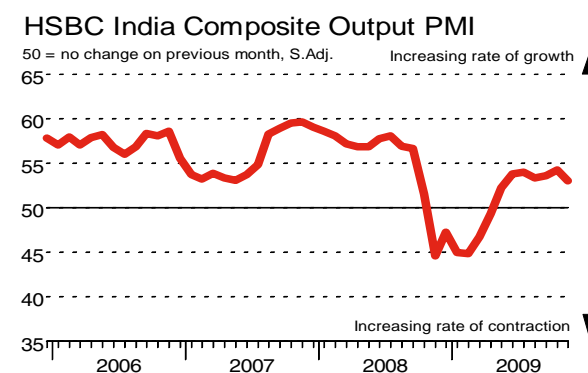
"As with the manufacturing PMI for November, this was a slightly disappointing release, pointing to a modest easing in the pace of service sector growth from October. The key business activity series did at least remain above the September level, although the same cannot be said of business expectations which slipped to its lowest point since July. Growth of both new and outstanding business also softened, while the prices charged index slipped slightly below 50.0, indicating that the balance of companies actually cut prices last month - a surprising result.

"Taking the manufacturing and services output indices together, the composite output PMI has effectively flattened out over the last few months, having surged earlier this year. Although the fairly short history of the series makes it difficult to know just how good an indicator it is, it did at least successfully predict the strong pick in ex-agriculture GDP growth in the July-September quarter. It points to roughly to 9-10% year-on-year GDP growth outside of agriculture."

Key points

- Total output and new business grew robustly, although at weaker rates than in October.
- Overall job creation eased to only slight pace.
- Both all-sector input and output price inflation moderated.

Historical Overview



For further information, please contact:

HSBC

Robert Prior-Wandesforde , Senior Asian Economist
Telephone +65-6239-0840
Email robert.prior-wandesforde@hsbc.com.sg

Rajesh Joshi,
Telephone +91-22-2268-1695
Email rajeshjoshi@hsbc.co.in

Daylon DCruz
Telephone +91-22-2268-1344
Email daylondacruz@hsbc.co.in

Markit

Gemma Wallace, Economist
Telephone +44-1491-461-075
Email gemma.wallace@markit.com

Claire Gorman, Corporate Communications
Telephone +44-20-7064-6032
Email claire.gorman@markit.com

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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