

HSBC India Services PMI (with Composite PMI data)

Services activity growth picked up to fifteen-month high in December

Summary

The seasonally adjusted HSBC Services Business Activity Index posted 57.4 in December, up from 55.2 in November. The gain in the index reversed the slight loss of momentum signalled in the previous month and took the rate of expansion to its highest since September 2008.

Measured overall, combined levels of output across the manufacturing and services sectors rose at the fastest rate since September 2008. The stronger pace of expansion was recorded at manufacturers.

December data indicated that the level of new work received by Indian service providers rose for the eighth month running. After easing in November, the rate of expansion accelerated to reach a fifteen-month high. Companies linked higher levels of new business to improving market conditions and successful promotional initiatives. New orders at manufacturers increased at the quickest pace for fifteen months and at a faster rate than at service providers. Combined growth of new business for both sectors also hit a fifteen-month high.

Continued growth of activity and new business placed additional pressure on active capacity at Indian companies. Subsequently, levels of both employment and backlogs of work, average across the manufacturing and service sectors, posted further increases.

Price indicators generally rose in December, suggesting that inflationary pressures may be building in the Indian private sector economy. Whole economy costs and charges rose at the fastest rates for three and fifteen months respectively.

Average services costs increased for the ninth straight month, reflecting higher salaries and increased purchase prices. Firms in the Hotels & Restaurants sector made specific reference to higher costs for food products. Meanwhile, manufacturing purchase prices rose for the ninth month in a row. The rate of increase was well above that signalled for services.

Average service sector charges rose for the fifth time in the past six months in December. However, the average rate of increase recorded during this period has been only weak.

Manufacturers' selling prices rose for the seventh successive month in December, but at a slightly slower rate than in November.

Comment

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

"As with the manufacturing output index, the services equivalent showed an encouraging bounce in December, suggesting that the economy is picking up steam and that the strong July-September GDP release was no flash in the pan. Although agricultural output looks certain to contract in coming months, any negative spillover effects to industry and services seem to have been offset by positive drivers such as the Pay Commission wage hike, the lagged effects of the huge policy stimulus and the recovery in external demand.

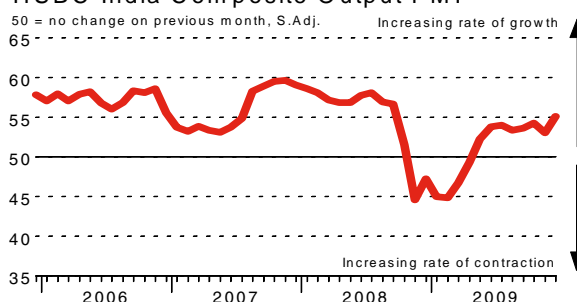
"The headline services Business Activity Index reached a new cycle high of 57.4 and is up more than 17 points since its low in February 2009. A strong improvement in the new business index is particularly noteworthy, while the employment index also rose further above the 50.0 no-change mark. The only negative point to come from the release was a second consecutive fall in the business expectations index (although it remains firmly in positive territory). It may be that some firms are starting to worry about interest rate hikes from the Reserve Bank. The prices charged index moved back up above 50.0, but only showed a modest rise in service sector prices."

Key points

- Growth of total activity and new business accelerated to hit fifteen-month highs.
- Job creation remained weak and led by service economy.
- Price indicators generally rising.

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 around 350 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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