

HSBC India Services PMI (with Composite PMI data)

Service sector activity growth accelerated in January, supported by further sharp increase in new work

Summary

Up for the second month running, the headline seasonally adjusted HSBC Business Activity Index for services posted 59.0 in January – its highest level since September 2008. The latest reading pointed to a considerable expansion of output, which respondents linked to higher volumes of new business. However, growth remained weaker than the pre-crisis trend. Manufacturing production also rose at an accelerated pace, and one that was above its pre-downturn average. Reflecting the sector data, the HSBC India Composite Output Index reached a sixteen-month peak.

Incoming new work to the Indian service sector increased for the ninth month running at the start of Q1. Growth was sharp, and little-changed from the rate recorded in December. Reports suggested that demand was supported by better economic conditions, successful marketing activities and service firms' strong reputations for quality. Meanwhile, new orders taken by manufacturers expanded at the fastest pace since August 2008. The Composite New Orders Index climbed slightly to show a sharp rise in all-sector new business.

Employment at Indian service providers increased in January, extending the current period of expansion to ten months. Growth accelerated slightly since December, but remained only moderate and weak in relation to the pre-financial crisis trend. Anecdotal evidence indicated that stronger demand for services necessitated the hiring of more workers. Staffing at manufacturers rose only marginally on the month. Consequently, the Composite Employment Index signalled modest growth of total personnel numbers.

Service firms raised their charges in January, either to expand profit margins or to pass on part of their greater cost burdens to customers. Companies have increased their tariffs in seven of the past nine months, and the latest round of inflation was the sharpest since September 2008. Charges for Indian manufactures also rose, but at a sharply accelerated pace. The Composite Output Prices Index rose for the second straight month to its highest level since September 2008 and signalled a solid rate of inflation.

Input prices faced by India's service providers climbed for the tenth successive month during the latest survey period. Moreover, inflation accelerated to a marked pace. Panel members reported that higher wage and raw material costs were behind the increase. Greater prices for food products, medicines and drugs were highlighted by several firms. Meanwhile, manufacturers reported a series-record increase in their purchasing costs. The Composite Input Prices Index signalled the fastest overall inflation for a year-and-a-half.

Comment

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

"The key business activity index continued its march deeper into expansionary territory in January and is once again consistent with double-digit output growth in India's service sector.

"With the manufacturing PMI also strengthening further over the last couple of months the ex-agriculture segment of the economy looks to have well and truly shaken off the spillover effects from a drought-ravaged agricultural sector. After a relatively soft quarter of GDP growth in October-December last year, we expect the economy to be back on track in the final quarter of the fiscal year and expand 8.5% in 2010/11.

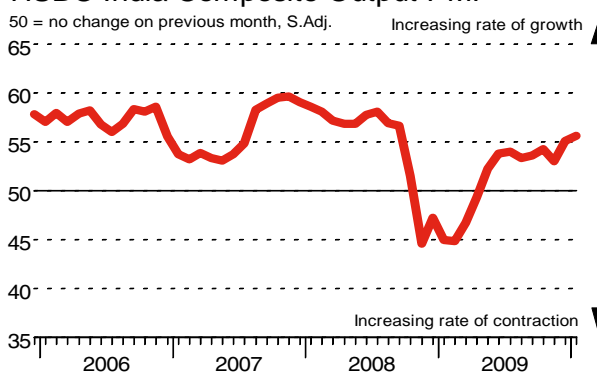
"Stronger growth is, however, leading to bigger price rises in the service sector, just as it is in manufacturing. It is interesting to see that more companies are mentioning higher wages as a contributing factor. In our view a repo/reverse repo rate rise is not too far away."

Key points

- Composite output and new business both grew sharply.
- All-sector employment increased at faster rate.
- Price indicators continued to rise.

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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