

HSBC India Services PMI (with Composite PMI data)

Business conditions across India continued to improve in February, with all-sector output, new orders and employment growing further

Summary

The headline seasonally adjusted HSBC Business Activity Index climbed for the third month running in February, hitting its highest level since September 2008 and signalling sharp growth of Indian service sector output. Moreover, the latest figure (60.9) was broadly on a par with the pre-downturn series trend. Manufacturing production growth also accelerated since the start of 2010. Consequently, the HSBC India Composite Output Index rose for the third straight month to its highest level for a year-and-a-half. The latest reading pointed to a sharp increase in all-sector output.

Underpinning services activity growth during the second month of 2010 was a faster rise in new business. New work received by Indian service firms increased at a considerable pace that was the most pronounced for seventeen months. Anecdotal evidence suggested that improving economic and financial climates had prompted companies to extend their service ranges and engage in promotional activities. Reports also indicated that strong company reputations had played a part in supporting demand. Meanwhile, manufacturers reported a quicker increase in new orders. Reflecting the sector data, the Composite New Orders Index signalled a substantial monthly rise in total new work.

Unfinished work at Indian service providers accumulated for the tenth straight month in February as workloads increased. However, the pace of growth was only slight and far weaker than the pre-crisis trend, reflecting some firms' efforts to clear backlogs. Data pointed to a similar situation in manufacturing. The Composite Outstanding Business Index showed a mild rate of overall backlog accumulation.

Job creation at service firms persisted at a moderate pace during the latest survey period. Companies stated that greater workloads, a favourable economic climate and business expansions were all key factors behind decisions to hire more staff. Employment growth in manufacturing was broadly the same as in services.

Service sector input costs rose at a robust pace in February, although more slowly than January's sixteen-month peak. Respondents linked the increase to higher wages and greater raw material prices. Manufacturers also reported a slowdown in the rate of purchasing cost inflation. Although the Composite Input Prices Index fell since January, it remained at a level consistent with a marked increase in input costs.

Favourable demand conditions enabled service firms to raise their charges in February. However, inflation eased to a more modest pace. Meanwhile, charge inflation slowed sharply from January's eighteen-month high in manufacturing. The Composite Output Prices Index fell as a result.

Comment

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

"This is another excellent service sector PMI release, complementing the manufacturing PMI for the same month. At 60.9 in February, the key business activity series is up more than 5 points since November, 20 since the low in February 2009 and above the series average of 57.9. Although the relationship with services GDP is not perfect, the PMI paints a very encouraging picture of activity in the sector. Put this together with the manufacturing PMI and it would be surprising if ex-agriculture GDP didn't grow at a double-digit pace in the first quarter of 2010. It certainly suggests that we shouldn't over interpret the disappointing fiscal Q3 GDP release which mainly reflected a big drop in government consumption."

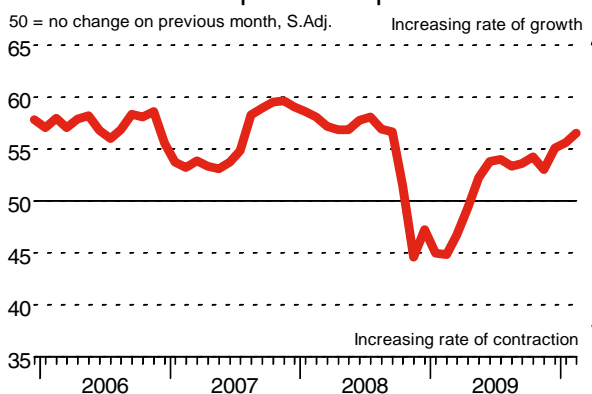
"Of the other series, it is encouraging to see the business expectations index rising further above 50.0 having experienced a couple of disappointing months, while new business component hit its highest level since the cyclical upswing began. There was even some good news on inflation, with the input prices and charges indices both slipping back in February, although they did remain in expansionary territory."

Key points

- All-sector output and new work both rose at accelerated rates.
- Job creation remained moderate.
- Price pressures cooled since January.

Historical Overview

HSBC India Composite Output PMI



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 daylondcruz@hsbc.co.in

Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email gemma.wallace@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Email caroline.lumley@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 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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