

HSBC India Services PMI (with Composite PMI data)

Demand for Indian manufactures and services remained strong in March, contributing to a further rise in all-sector output and price pressures

Summary

At 58.1, the headline seasonally adjusted HSBC Business Activity Index for India services was down on February's seventeen-month peak of 60.9, signalling a slowdown in the rate of output growth. Even so, activity continued to expand at a considerable pace. Taking a quarterly average of the headline index shows that Q1 2010 was the most successful quarter in terms of activity expansion since Q3 2008. Output growth also slowed in manufacturing, although it remained more marked than in services. Reflecting the sector data, the HSBC India Composite Output Index slipped to a three-month low, but still signalled a sharp overall rate of increase.

Underlying the increase in Indian service sector activity was a similarly-sharp expansion of new business. Over one-quarter of companies recorded more new work on the month, citing better economic and financial conditions, greater efforts to promote their services and good reputations. Similarly, incoming new orders to manufacturers rose at a weaker rate in March. Consequently, the Composite New Orders Index fell since February, although it remained at a level consistent with a substantial expansion of all-sector new work.

There was evidence of capacity pressures at Indian service providers during the latest survey period, as outstanding business and employment both continued to rise. Data pointed to a moderate and accelerated accumulation of backlogs, which firms linked to greater workloads and delays in client payments. Meanwhile, March marked one year of rising staffing numbers in the service sector. Panel members stated that workforces were raised at a modest rate as business requirements increased. Meanwhile, unfinished business and personnel levels at Indian manufacturers were largely unchanged since February. The Composite Outstanding Business and Composite Employment Indices pointed to modest overall increases in both variables.

Data showed that both input and output price inflation in the service sector accelerated on the month. Hikes in wage, fuel and raw material costs drove the robust increase in input prices, according to panellists. Purchasing costs at Indian manufacturers climbed at a far faster pace in March. The net result was a moderate rise in the Composite Input Prices Index, which pointed to a considerable rate of total inflation.

Indian service charges were raised at a solid pace at the end of the first quarter, extending the current sequence of inflation to four months. Reports indicated that this was in response to a combination of greater cost burdens and more favourable demand conditions. Prices charged for Indian manufacturers also increased faster in March. The Composite Output Prices Index reached a one-and-a-half year peak as a result.

Comment

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

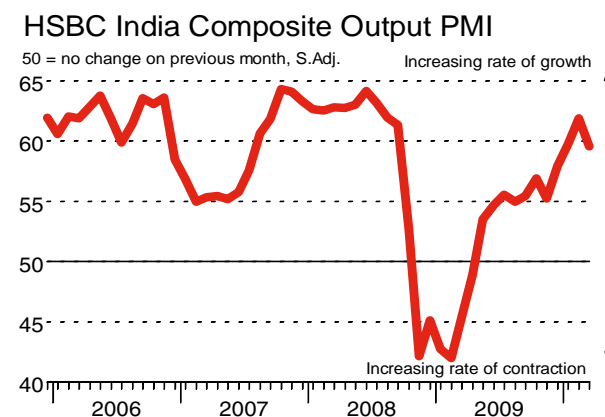
"As with the March manufacturing PMI, the main news here relates to the price balances. Although not as strong as those in manufacturing, input prices and prices charged in the service sector both increased in March, with the latter hitting a new high for the current upswing. This further reinforces the message that underlying inflationary pressures continue to build in India and the RBI is behind the curve."

"Prices were virtually the only service sector PMI series to rise in March, as the key business activity (output) measure dropped to 58.1 (from 60.9), while the new business and business expectations indices also fell back. All, however, remain at high levels consistent with double-digit growth in service sector GDP and it is certainly too early to call the top in the pace of activity growth. Employment registered its twelfth consecutive monthly rise, albeit at a still fairly modest pace."

Key points

- Composite output and new business growth both slowed, but remained sharp.
- All-sector job creation was moderate, but eased since February.
- Overall price pressures intensified.

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 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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