

## HSBC India Services PMI (with Composite PMI data)

Total activity and new business growth accelerated in April, leading to faster rise in employment. Price pressures continued to mount

### Summary

The headline seasonally adjusted HSBC Services Business Activity Index climbed to a twenty-one month high of 62.1 at the start of Q2, pointing to an uptick in Indian service sector output growth. The reading signalled a sharp rise in activity at service providers. Meanwhile, manufacturing production rose at a weaker pace. The HSBC India Composite Output Index rose to 61.5 in April, up from 59.6 in March.

Volumes of new work received by Indian service providers continued to rise in April, which panellists linked to favourable economic conditions, successful marketing activities and good company reputations. Growth was substantial and the most pronounced since July 2008. In contrast, incoming new orders to the manufacturing industry increased at a more moderate pace. Reflecting the sector data, the Composite New Orders Index climbed slightly on the month to show a considerable expansion of total new work.

To support higher activity levels, Indian service firms took on additional staff during April. Employment in the sector increased solidly and for the thirteenth month in succession. However, growth remained weaker than the pre-downturn trend. After falling slightly in March, employment at manufacturers rose solidly at the start of Q2. Consequently, the Composite Employment Index signalled a moderate expansion of all-sector employment.

Outstanding business accumulated at a modest and accelerated pace at Indian service providers. Anecdotal evidence suggested that greater workloads and delays caused by clients were behind the latest build up, which was the twelfth in succession. Data showed that backlogs at manufacturers increased solidly. The Composite Outstanding Business Index rose to a thirty-one month high to signal moderate growth in overall volumes of unfinished work.

Higher wage, fuel and raw material prices exerted upward pressure on average input costs in April. Input price inflation faced by service firms accelerated to a sharp pace on the month. Firms have now reported rising input costs for over a year. Although still considerable, and above that signalled in services, purchasing cost inflation in manufacturing eased since March. The Composite Input Prices Index indicated a sharp and accelerated increase in total input costs.

Partly to protect profit margins from growing cost burdens, but also to take advantage of favourable market demand, Indian service providers raised their charges in April. Output prices increased at a marked and accelerated pace as a result. Data showed that manufacturers upped their rates at a similar pace to service firms. Consequently, the Composite Output Prices Index rose to a twenty-month peak.

### Comment

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

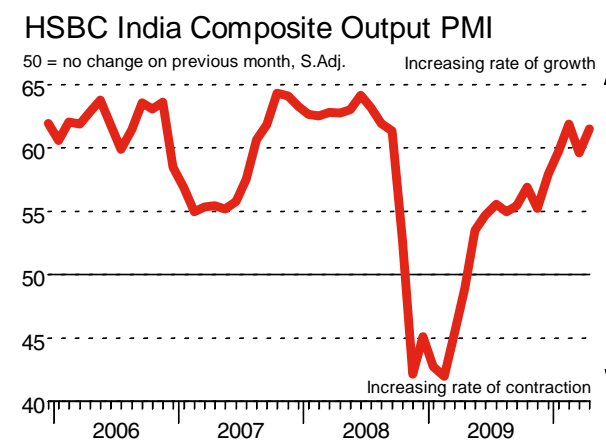
*"This was an impressively strong release, suggesting that the modest slowdown in industrial activity indicated by the last couple of manufacturing PMIs is being more than offset by a pick up in service sector activity. In other words, GDP growth looks set to strengthen and we wouldn't rule out a quarter or two of double-digit gains in the economy as a whole.*

*"It is important to stress, however, that such strength is not sustainable and is bringing with it capacity constraints and higher cost/price pressures. Indeed not only did the key business activity (output) series reach a new cycle high of 62.1, but the input prices and prices charged indices both jumped to their highest levels since August 2008, before the "great recession" hit. The strength of demand is also generating bigger job gains as well as a rise in outstanding business. We would reiterate our view that plenty more rate rises are required and are likely to be delivered in time."*

### Key points

- All-sector output, new business and employment growth accelerated.
- Total work-in-hand accumulated at moderate pace.
- Overall price pressures continued to build.

### 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](mailto:robert.prior-wandesforde@hsbc.com.sg)

Rajesh Joshi,

Telephone +91-22-2268-1695

Email [rajeshjoshi@hsbc.co.in](mailto:rajeshjoshi@hsbc.co.in)

Daylon DCruz

Telephone +91-22-2268-1344

Email [daylondcruz@hsbc.co.in](mailto:daylondcruz@hsbc.co.in)

### Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email [gemma.wallace@markit.com](mailto:gemma.wallace@markit.com)

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Email [caroline.lumley@markit.com](mailto: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.

### HSBC:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,000 properties in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,364 billion at 31 December 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

### About Markit:

Markit is a leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see [www.markit.com](http://www.markit.com)

### About Markit Economics:

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

**The intellectual property rights to the HSBC India Services and Composite PMIs provided herein are owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.**