

HSBC India Services PMI (with Composite PMI data)

Total activity growth eased, but remained considerable. Job creation accelerated.

Summary

Activity growth across the Indian services economy cooled in May, as shown by a fall in the headline seasonally adjusted HSBC Business Activity Index from a twenty-one month high of 62.1 in April to 58.2. Nevertheless, the latest reading remained at a level consistent with a sharp expansion of output. In contrast, manufacturing production rose at an accelerated pace. The HSBC India Composite Output Index fell from 61.5 in April to 59.5 in May, to signal an easing in all-sector output growth. Even so, the latest increase was considerable and above the series' long-term trend.

Supporting May's increase in service sector activity was another considerable, albeit slightly weaker, expansion of new business. Anecdotal evidence suggested that a good economic environment, successful promotional activities and strong company reputations were the key reasons for higher market demand. Meanwhile, new orders rose at the fastest rate for three months in the manufacturing industry. Consequently, the Composite New Orders Index was broadly unmoved in May, indicating another sharp expansion of total new work.

Larger workloads led to another accumulation of backlogs across India's services industry. The volume of outstanding business grew at a moderate rate that was little-changed from that recorded one month earlier. Several respondents also mentioned delays caused by customers. Work-in-hand at manufacturing units increased at a faster pace in May. The Composite Outstanding Business Index climbed to a series record high, indicating solid growth of total backlogs.

To support greater business requirements, Indian service companies expanded their productive capacity in May. Employment levels increased at the same rate as the twenty-month peak recorded at the start of Q2. The rate of growth was robust and only fractionally weaker than the pre-downturn trend. Manufacturers took on workers at a slightly slower rate than service providers. The Composite Employment Index reached a twenty-two month high, pointing to a solid increase in staffing overall.

Indian service firms raised their charges at a solid pace. This was partly to generate larger returns amid favourable business conditions, but also to defend profit margins from rising costs. Input price inflation was sharp in May, driven by further hikes in raw material prices and salaries. However, both price measures eased from their twenty-month highs in April. Price pressures were much stronger in manufacturing than in services. The Composite Input and Output Prices Indices both fell on the month.

Comment

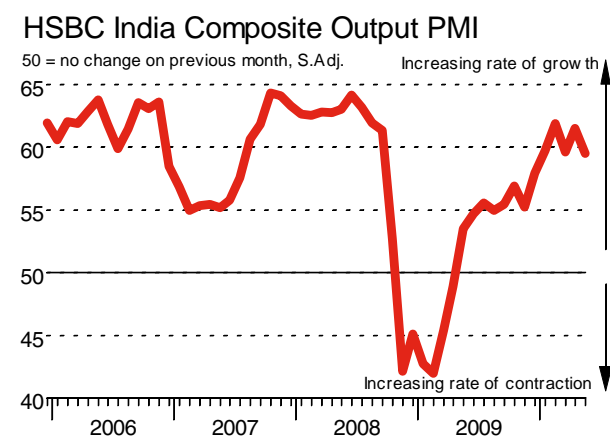
Commenting on the India Services PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"India's economy continues to expand at a brisk pace. As a result, employment growth remains robust, helping to sustain consumer spending in the coming months. New business growth, while little-changed in May, is still elevated and above trend. The easing of output and input price pressures, meanwhile, will provide some relief to the central bank that has set its sight firmly on rising inflation. But further evidence needs to be gathered of falling price pressures before officials can let down their guard entirely."

Key points

- Total new business growth little-changed from April's twenty-one month high.
- All-sector employment rose solidly.
- Price pressures eased slightly.

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.

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Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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