

HSBC India Services PMI (with Composite PMI data)

Total output rose at sharpest rate for nearly two years, driven by faster services activity growth

Summary

After dipping slightly in May to 58.2, the headline seasonally adjusted HSBC Business Activity Index for the Indian service sector regained some ground in June, reaching a two-year high of 64.0. The latest reading pointed to a substantial rate of expansion. Over 43% of monitored companies raised activity on the month, primarily responding to further growth of new work. Although manufacturing production rose more slowly in June, the rate of increase remained considerable. At 62.8, the HSBC India Composite Output Index subsequently pointed to the sharpest rise in activity for almost two years.

Incoming new business to India's service sector increased at a sharp and accelerated pace during the latest survey period. Respondents linked higher receipts of new work to a good economic climate and strong reputations for quality. Growth has now been recorded for fourteen straight months, the latest round of which was the sharpest since November 2007. New order growth in manufacturing weakened slightly in June, but remained above-trend. The Composite New Business Index climbed to a twenty-nine month high to signal a sharp monthly increase in total new work.

June's sharp rise in activity levels was not sufficient to prevent a build-up of unfinished work at Indian service companies. In fact, backlogs accumulated at the fastest rate since September 2007. Outstanding business also rose in manufacturing, and at an accelerated pace. Reflecting the sector data, the Composite Outstanding Business Index rose to a series record peak and showed a robust rate of increase overall.

In response to further growth of new business, Indian service firms hired extra staff at the end of Q2, extending the current run of expansion to fifteen months. Employment rose solidly and at the fastest rate since August 2008 as a result. Meanwhile, staffing at manufacturers was unchanged. The Composite Employment Index fell slightly in June, but still pointed to a moderate rate of total job creation.

Services input price inflation slowed further from April's twenty-month high in June. Nonetheless, the latest increase was marked, driven by both raw material price and wage rises. Input cost inflation also eased in the manufacturing industry, but more sharply. Consequently, the Composite Input Prices Index dipped over five points to a seven-month low. The latest figure indicated a solid rate of all-sector input cost inflation.

Partly to compensate for rising input prices, but also to boost profit margins as market demand strengthened, Indian service companies raised their charges in June. Moreover, the rate of increase accelerated fractionally since May. In contrast, manufacturers upped their tariffs at a slower rate. The Composite Output Index fell fractionally as a result.

Comment

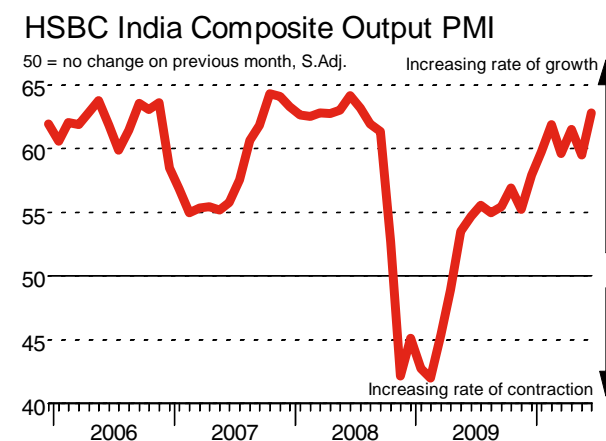
Commenting on the India Services PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"India's service sector is driving at full speed. Despite a pull-back in manufacturing, firms in the tertiary sector are still receiving new business at a brisk pace and are boosting employment. As a result, price pressures remain elevated. India's economy, it appears, is shaking off weakness elsewhere, requiring an entirely different policy conduct than other countries in Asia."

Key points

- All-sector output and new business both rose sharply.
- Job creation eased slightly.
- Price pressures continued to moderate.

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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