HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Services PMI™ (with Composite PMI data)

Composite output growth slowed from June's twenty-three month peak in July, but remained substantial

Summary

The headline seasonally adjusted HSBC Business Activity Index slipped to 61.7 in July from June's two-year peak of 64.0. Nevertheless, the latest reading pointed to a substantial expansion of Indian service sector output. In contrast, manufacturing production growth accelerated to a rapid pace. The HSBC India Composite Output Index fell to 61.9 in July, from a twenty-three month high of 62.8 in June. The latest reading nevertheless signalled another sharp increase in all-sector activity.

After accelerating to a thirty-one month peak at the end of the second quarter, service sector new business growth slowed to a four-month low in July. Even so, the latest increase was sharp, with one-quarter of panel members registering an expansion in new work. Anecdotal evidence suggested that a more favourable economic environment, strong reputations for quality and successful promotional activities all supported demand for services. Meanwhile, manufacturers noted a fractionally faster inflow of new orders. Overall, the Composite New Orders Index pointed to a slower – but still considerable – increase in new work.

Indian service providers noted a modest build-up of unfinished business during the latest survey period, which they largely attributed to a combination of heavier workloads and customer delays. The latest accumulation was the mildest since February. Backlogs at Indian manufacturers rose at a moderate, but weaker, rate in July. Consequently, the Composite Outstanding Business Index fell to a four-month low to signal a moderate increase in total work-in-hand.

Personnel numbers at Indian service providers continued to rise in July, extending the current sequence of growth to sixteen months. Firms indicated that additional workers were needed in order to cope with greater market demand. However, the rate of increase eased to a moderate pace that was the weakest since March. Staffing levels were largely unchanged at manufacturers. The Composite Employment Index posted its lowest reading since March and indicated a modest rate of job creation overall.

Input price inflation in the service sector accelerated to a sharp rate in July, after slowing in June. Consequently, companies continued to raise their charges at a solid pace. Reports indicated that greater wage, fuel and raw material costs drove increases in both variables. In the manufacturing industry, both input and output price inflation accelerated slightly. The Composite Input Prices Index rose since June, pointing to a stronger build-up of total cost pressures. Meanwhile, the Composite Output Prices Index was unmoved.

Comment

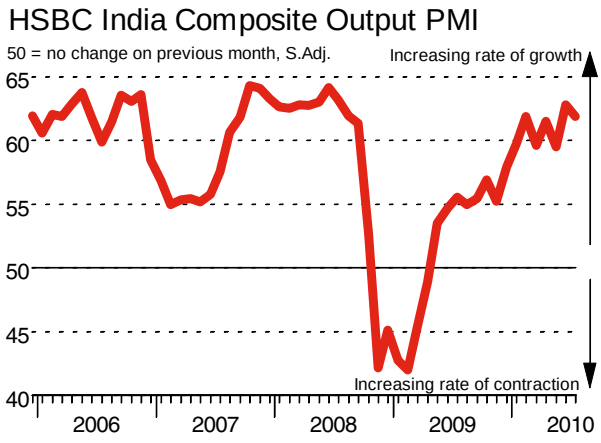
Commenting on the India Services PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"India's service sector is gearing down a notch, albeit from an extremely fast pace. This doesn't imply that the engine is stalling, however. Both output and new business continue to advance quite robustly, even if firms have eased off on their hiring and noted a slower rise in backlogs. Most relevant for the central bank is that input prices in the service sector continue to rise. Evidently, the slowdown in services has so far done little to ease cost pressures in the economy. Inflation of prices charged has only eased marginally. Officials, therefore, cannot afford to let down their guard, and more interest rate hikes are on the horizon."

Key points

- All-sector output and new business growth moderated, but remained sharp.
- Total staffing numbers rose moderately.
- Composite input price inflation accelerated.

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.

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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