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HSBC India Services PMI™ (with Composite PMI data)

Composite output growth remained sharp, with expansion now sustained for sixteen successive months

Summary

The headline seasonally adjusted HSBC Business Activity Index posted 59.3 in August, falling from 61.7 in July. This was the second successive decrease in the headline figure, however it continued to signal sharp growth of the Indian service sector. Manufacturing data showed a marginal slowdown in output expansion, although this remained marked. Overall, the HSBC India Composite Output Index fell to 60.3 in August, from 61.9 in July. However, the latest reading was only moderately lower than the 23-month high recorded in June.

Incoming new business received by service firms in India increased markedly during August, boosted by the ongoing improvement in global economic conditions. Moreover, the latest growth was faster than that posted in July. All six sectors monitored indicated that new business had risen during the month, although this was most marked in Postage & Telecommunications. Overall new orders have now increased in each of the last sixteen months.

Despite the sharp rise in output recorded during the month, backlogs of work at service sector companies in India increased again during August. This signalled that pressures on production capacity continued. However, the accumulation of outstanding business was only marginal, with the majority of panellists reporting that backlogs were unchanged since July. Three of the six monitored sub-sectors indicated an increase in outstanding business – Other Services, Renting & Business Services and Transport & Storage.

Reflective of sustained growth in new business and activity, employment in the Indian service sector increased during August. This was the seventeenth successive month where staffing levels have risen.

August data signalled a marked increase in input costs faced by Indian service companies. The latest rise in input prices was driven by higher purchase and wage costs. Whilst August's increase in costs was marginally lower than in July, it remained strong in the context of historical data. Input cost inflation has now been sustained since April 2009. Subsequently, output prices also increased during the month. Rates of charge inflation have been broadly consistent over the last four months.

Indian service sector companies remained optimistic over future business expectations in August. Many panellists indicated that they forecast activity to rise over the next year, supported by general improvements in market conditions.

Comment

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

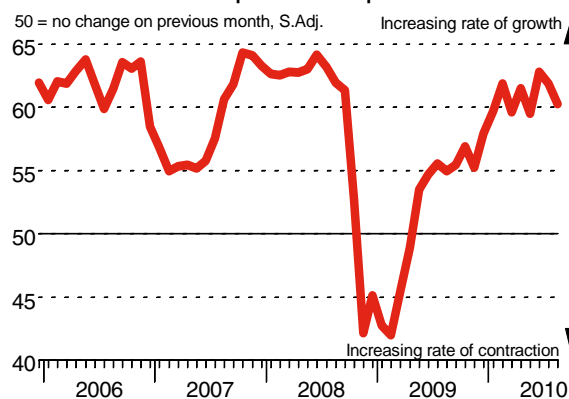
"Service sector activity, which in India accounts for the bulk of economic output, slowed a little last month. But, monetary officials can hardly afford to relax their guard. Growth remains strong, and there are few signs that input and output price pressures are letting up meaningfully. Both employment generation and outstanding business remain consistent with a robust, ongoing expansion. Meanwhile, the rise in business expectations suggests that activity could re-accelerate in the coming months. With inflation still too high for comfort, the latest round of PMI data continues to point towards the need for gradual monetary tightening."

Key points

- Growth in total new orders increased slightly on the month.
- Employment rose marginally.
- Input price inflation remained marked across the manufacturing and service sectors.

Historical Overview

HSBC India Composite Output PMI



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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.

HSBC:

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