

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

Growth of Indian private sector economy slowed in December, but remained marked. Price pressures intensified

### Summary

December PMI data pointed to marked growth of Indian private sector output, with the headline HSBC India Composite PMI posting 58.9. However, this eased from November's 61.3, as both the manufacturing and service sectors recorded slower expansions in activity.

Incoming new business received by service companies in India increased strongly in December, with growth now recorded in each survey period since May 2009. However, the latest expansion eased and, whilst faster than the seventeen-month low recorded in October, was below the long-run series average. Manufacturers also reported marked growth, but at a slower pace than in November.

Despite the weaker rise in new work intakes, outstanding business in the Indian economy increased during December for a second month running. Panellists in both the manufacturing and service sectors indicated that backlogs of work had increased, although the rate of accumulation slowed in the former.

Employment in the Indian service sector increased moderately during December. The rate at which staffing levels rose was broadly flat on the month. Manufacturers indicated that employment was unchanged since November. Subsequently, the pace of increase in staffing levels held constant for a third month running.

December data signalled a marked rise in input costs faced by companies in India. The latest rise was the fastest in seven months, and was driven by increased input prices in both the manufacturing and service sectors. Output prices rose markedly during December, and at a pace above the long-run series average. This suggested that Indian companies found it easier to pass on higher costs during the month.

Service companies in India remained optimistic in December over future business prospects. Many panellists expect strengthened economic conditions, increased marketing and improved and expanded service offerings to support a rise in activity over the next twelve months. Companies in the Post & Telecommunications sub-sector were the most confident of those surveyed. However, the degree of overall positive sentiment eased slightly, and was below the long-run series average.

### Comment

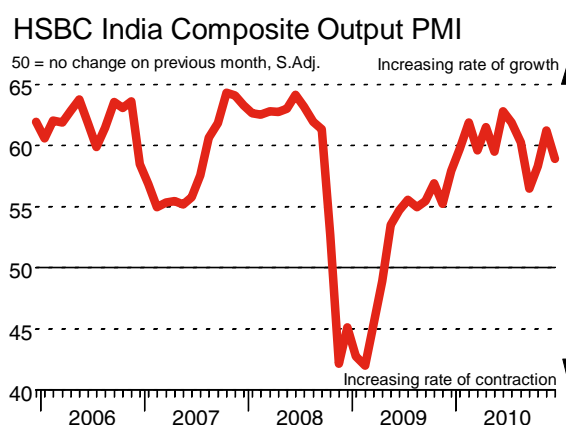
Commenting on the India Services PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

*"The upturn in the service sector continued in December and companies remained optimistic about the outlook, although the respective index readings eased from the previous month. The expansion in activity was primarily driven by new business, which benefitted employment but also led to a small increase in outstanding business. As we saw for the manufacturing sector, strong growth momentum pushed up input costs (mainly from higher wages and fuel costs) at an accelerated pace and service sector companies saw increasing scope (and need) to pass on these higher costs to end-consumers. The tightening capacity constraints and rising inflation pressures call on RBI to deliver on its hawkish statement and resume tightening in early 2011."*

### Key points

- Weaker new order growth recorded in both manufacturing and service sectors.
- Overall staffing levels increased marginally for a third consecutive month.
- Inflationary pressures built, with both input and output prices increasing at stronger rates.

### 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](mailto:economics@markit.com).

**HSBC:**

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