

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

Growth of Indian private sector output marked at the start of 2011

### Summary

The headline HSBC Composite PMI posted 59.6 in January, up marginally from December's 58.9. The latest figure pointed to a marked expansion of Indian private sector output that was above the long-run average for the series. Both the manufacturing and service sectors saw a faster rise in activity during the month.

Indian service providers reported a marked rise in incoming new business during January. Panellists attributed the latest expansion in new work intakes, which was the twenty-first in successive months, to ongoing improvements in general economic conditions. Manufacturing companies indicated a substantial rise in new order volumes.

The overall rise in new work intakes supported the marked increase in output seen during the month. However, there was a further accumulation of outstanding business. The extent to which backlogs at Indian companies increased was slightly weaker than in the previous month, due to a slower rate of accumulation in the manufacturing sector.

Reflective of further growth in new work intakes, and a rise in outstanding business, January data signalled a marginal increase in employment in the Indian service sector. However, only service providers recorded a rise in staffing levels, with the rate of the overall increase the same as in the previous three months.

Input prices faced by companies in India increased substantially during January. Moreover, the latest rise in costs was the strongest in the series history. Panellists also noted a marked rise in charges during the month. The increase in output prices was also sharp in the context of historical data, and the fastest since August 2008.

Companies in the Indian service sector were confident in January that activity would increase over the next twelve months. Ongoing improvements in economic conditions, increased marketing campaigns and the high quality of services provided are all expected to support the projected expansion in activity. The degree of positive sentiment indicated was the strongest in five months, and above the historical average for the series.

### Comment

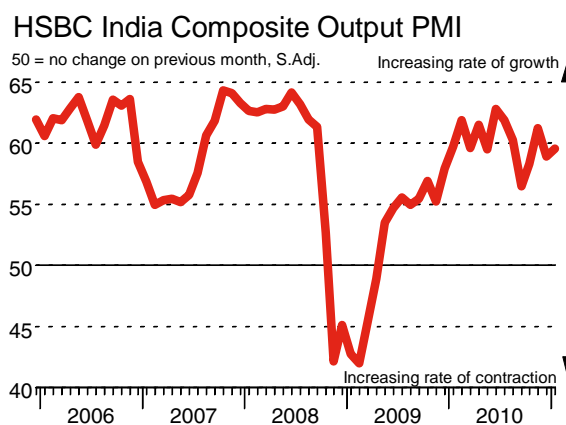
Commenting on the India Services PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

*"India's service sector saw a slight acceleration in the momentum in January, with activities, orders, and employment growing a bit faster and readings staying firmly in expansionary territory. Moreover, businesses were more optimistic about the outlook for activity over the next 12 months. As we saw for the manufacturing sector, however, the supply side is struggling to keep pace with the strong momentum in domestic demand, which is manifesting itself in accelerating input prices and is spilling over to prices charged. Moreover, rising food and fuel prices are adding to inflation. The current strong pace of activity is clearly not compatible with comfortable and stable levels of inflation, underscoring the urgency of continued monetary policy tightening and the need to prepare a budget for the next fiscal year, which is consistent with an appropriately contractionary fiscal policy stance."*

### Key points

- Expansion of new business gathered pace in January.
- Rate of overall job creation the same as in the previous three months.
- Input price inflation in the Indian economy fastest in series history.

### 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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