

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

Growth of Indian private sector output slows to 27-month low

### Summary

The expansion of Indian private sector output slowed again in August, with the HSBC India Composite Index – which covers both the manufacturing and service sectors – posting 54.5, down from July's 57.9. While the latest reading signalled marked growth of output, the increase was the weakest since May 2009.

Both the manufacturing and service sectors saw an easing in the expansion of output in August. The seasonally adjusted Business Activity Index – which measures service sector activity – posted 53.8, from 58.2 in July.

The slowdown in output growth was more marked in the service sector, following a sharp easing in the rate of increase in new business. Overall new orders received by manufacturers rose at a slightly weaker rate than that seen in July, despite a strong contraction in new export business.

Outstanding business at service providers rose, however, indicating that the reduction in output growth more than offset that of new business. In contrast, backlogs of work at manufacturers decreased. Overall, there was a modest rise in work-in-hand at Indian private sector companies.

Overall employment decreased for the first time since April 2009 in August. Panellists in both the manufacturing and service sectors reported reductions in staffing levels in the latest survey period. However, the rate of job cuts was only marginal.

Input costs and output prices rose at faster rates in August. While the increase in costs was broadly unchanged on the month for service companies, manufacturers noted an acceleration in input price inflation.

In contrast, prices charged by service companies rose at the fastest pace in just over three years, while the increase in manufacturers' output prices slowed slightly. Overall, the latest rises in both input costs and charges were marked in the context of historical data.

Service companies in India remained optimistic in August that activity would increase over the next 12 months. Improved market conditions and increased marketing campaigns are expected to boost activity levels. The degree of positive sentiment weakened slightly since July, but was broadly in line with the historical average for the series.

### Comment

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

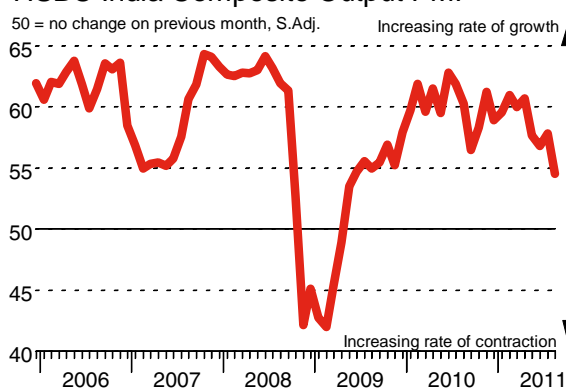
*"The sequential growth rate in both business activity and new business decelerated markedly in response to the lagged effects of monetary policy tightening, the elevated level of inflation and the now heightened uncertainty about the global economic outlook. Despite the slower momentum in service sector activity, however, backlogs of work continued to increase and inflation pressures remained firmly in place, with input costs increasing at a steady pace and prices charged accelerating. Inflation, therefore, remains the dominant concern, calling for a few more policy rate hikes before RBI can call it quits."*

### Key points

- Weaker expansions of output recorded in both manufacturing and service sectors
- Overall employment falls for first time in 28 months
- Inflationary pressures intensify

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

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