

HSBC India Services PMI™ (with Composite PMI data)

Growth of Indian private sector output slows to near-stagnation

Summary

The expansion of Indian private sector output weakened further in September. The HSBC India Composite Index – which covers both the manufacturing and service sectors – posted 50.2, only fractionally above the 50.0 no-change threshold. Furthermore, down from August's 54.5, the headline index decreased to the greatest extent since November 2008.

The seasonally adjusted Service Sector Business Activity Index posted 49.8, from 53.8 in August. This pointed to a broad stagnation in service sector activity. Meanwhile, growth of manufacturing output was recorded, although this was only modest and the weakest in the current two-and-a-half year sequence of expansion.

Weaker new business growth was recorded in both the manufacturing and service sectors, with the composite rate of increase easing to the slowest since April 2009. Panellists in both sectors indicated that softening economic conditions had dampened demand.

Levels of outstanding business at Indian service companies increased for a third month running in September. However, the rate of accumulation was marginal, and the majority of respondents noted no change in levels of work-in-hand from the previous survey period. In contrast, backlogs of work declined for a second consecutive month in the manufacturing sector. Overall, outstanding business rose slightly.

Employment fell in both the manufacturing and service sectors during September. The overall decrease was modest, but the sharpest since February 2009. Anecdotal evidence suggested that weaker growth in output and new business had led to job cuts.

Input prices faced by companies in India rose markedly in September. The rate of cost inflation slowed since August, but remained above the long-run trend. Overall output prices increased for a twenty-eighth successive month and, while the rate of charge inflation slowed slightly, it was the second-strongest in over three years. The increase in service sector charges outpaced the rise in costs for the first time in the series history.

Indian service companies were optimistic in September that activity would rise over the next year, supported by marketing initiatives and the high quality of services provided. However, the degree of positive sentiment fell for the third month running and was below the historical average for the series.

Comment

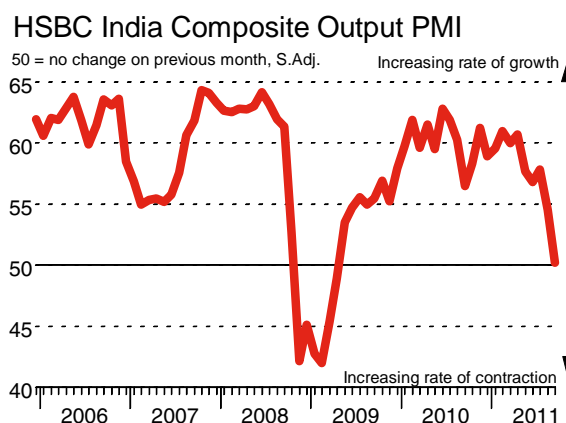
Commenting on the India Services PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"The slowdown in growth has continued to broaden with the service sector seeing a further slowdown in economic momentum, especially for financial intermediation. Business activity was broadly unchanged from the previous month and new business is growing at a slower pace. Backlogs of work are still rising, but less fast, and employment fell in response to the deceleration in new order growth as well as staff leaving because of unmet wage demands. However, inflation pressures remain firmly in place. While both input prices and prices charged grew at a slower pace, they stayed high by historical standards. We are getting close to the end of RBI's tightening cycle, but we are not quite there yet."

Key points

- Slower new order growth leads to weaker expansion in output
- Overall employment decreases for second successive month
- Inflationary pressures ease

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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