

HSBC India Services PMI™ (with Composite PMI data)

Indian private sector activity increases slightly in October, supported by growth of manufacturing output

Summary

Indian private sector output rose only slightly in October. The HSBC India Composite Index – which covers both the manufacturing and service sectors – posted 50.3, fractionally up from September's 50.2. The headline index, while pointing to growth of activity, remained well below the long-run series trend.

The seasonally adjusted Service Sector Business Activity Index posted 49.1, from 49.8 in September. This signalled a marginal reduction of activity in the Indian service sector, following near-stagnation of output in the previous survey period. Meanwhile, manufacturing output improved slightly from September's 30-month low.

Indian service providers reported an increase in new work intakes during October, extending the sequence of sustained growth to two-and-a-half years. However, the rate of new business expansion was marginal and the second-slowest in that period. Moderately faster growth of new orders in the manufacturing sector led to a slight strengthening of overall new work intakes, but growth remained modest.

Backlogs of work rose fractionally across the Indian private sector in October. Outstanding business in the service sector was little changed from the previous survey period, while manufacturers reported a marginal accumulation of work-in-hand, partly reflective of power outages that had delayed production.

Panellists in both the manufacturing and service sectors reported reductions in employment during October. Service providers attributed this to weaker new business growth and natural attrition. However, manufacturers indicated difficulties filling vacant positions due to higher wage requirements. The overall fall in staffing levels was modest.

Increases in both input costs and output prices eased in October. Overall input price inflation was the weakest in 12 months and broadly in line with the long-run series average. Charges rose at the slowest rate in four months, albeit still robustly with similar increases recorded across manufacturing and services.

Service providers remained optimistic in October that business activity would rise over the next year, supported by investment in marketing initiatives. However, the degree of positive sentiment was lower than the historical average, with concerns about the economic outlook acting as a drag on confidence.

Comment

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

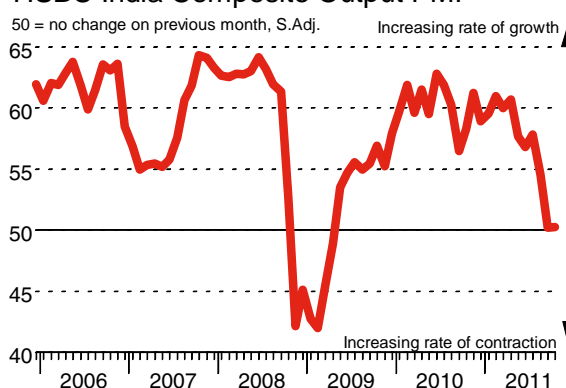
"The momentum in the services sector eased further in October with business activity declining sequentially and new orders expanding at a slower clip. This reflects the lagged impact of the monetary policy tightening undertaken so far, although partly also reported strike action. By sector, the deceleration was led by financial services, renting & business services, and the broader "other services" category. On the inflation front, there was some relief with both prices charged and input costs rising less rapidly, although the former are still climbing fast by historical standards. The numbers confirm some re-balancing between growth and inflation risks, supporting RBI's decision to signal a pause in the near term."

Key points

- Marginal improvement in new business growth, but output rises only marginally
- Employment falls for third successive month
- Both input costs and output prices increase at weaker rates

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.

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