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HSBC India Services PMI™ (with Composite PMI data)

Indian private sector activity increases at strongest rate in five months in December

Summary

Indian private sector output grew solidly in December, with the rate of expansion the sharpest since July. The HSBC India Composite Index – which covers both the manufacturing and service sectors – posted 54.7, up from November's 52.3.

The seasonally adjusted HSBC Business Activity Index posted 54.2 in December, up from 53.2 in November. Posting above the 50.0 no-change threshold that separates growth from contraction, the latest reading pointed to a rise in activity in the Indian service sector that was stronger than in the previous survey period. Manufacturing output also expanded at a faster rate. However, rates of growth remained below their respective long-run series averages.

New business received by Indian service companies increased for the thirty-second consecutive month in December. The rate of expansion was marked, having strengthened since November. New order growth at manufacturers also accelerated.

Backlogs of work at service companies in India were reported to have increased during December. This followed two months where levels of outstanding business had remained broadly unchanged. Manufacturers reported a third successive rise in backlogs, although the latest accumulation was slightly slower than in the previous survey period.

December data signalled a marginal increase in employment in the Indian service sector, the first rise in staffing levels since June. Manufacturers also registered a slight increase in staffing levels. Where job creation was reported, this was attributed to higher levels of new work and activity.

Overall inflationary pressures intensified during December. Input prices rose at the fastest rate in four months, with an acceleration of cost inflation in the service sector offsetting a slightly weaker rise in manufacturers' input prices. Charge inflation strengthened in both sectors, with the overall increase the sharpest in three months.

Indian service providers were optimistic in December that activity would rise over the next 12 months. Growth of new business, supported by improved economic conditions and new marketing initiatives, are expected to drive the expansion in activity. While confidence strengthened slightly since November, it remained below the long-run trend. Downside risks to new business growth due to potential worsening economic conditions and increased competition were cited as the main factors weighing on positive sentiment.

Comment

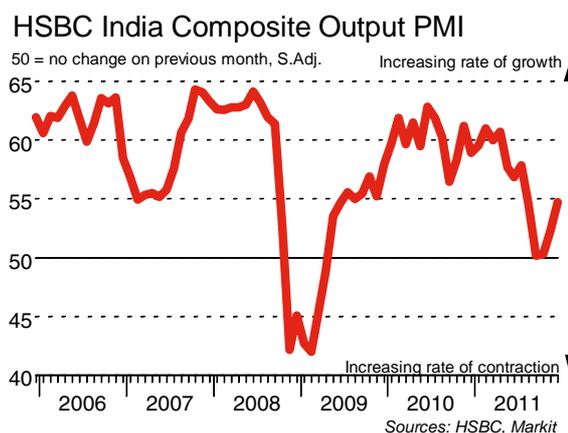
Commenting on the India Services PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the services sector picked up pace in December led by faster growth in new business, underscoring the resilience of the sector. Despite the rebound in growth, backlogs of work only rose marginally. This probably reflected that employment crawled back into positive territory. Demand remains sufficiently solid to allow companies to increase prices charged at an accelerated pace to pass on still accelerating costs. All in all, these and the manufacturing PMI numbers suggest that it's premature for the RBI to replace inflation with growth as the main concern."

Key points

- New business rises markedly, supporting further growth of output
- Overall employment increases for first time in five months, albeit only marginally
- Inflationary pressures intensify

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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