# HSBC India Services PMI<sup>TM</sup> (with Composite PMI data)

## Marked growth of Indian service sector business activity at start of 2012

## **Summary**

Indian private sector output grew markedly in January, with the current period of sustained expansion extended to 33 months. Moreover, posting 59.6, the HSBC India Composite Index – which covers both the manufacturing and service sectors – rose from December's 54.7 to signal the sharpest increase in activity in nine months.

The seasonally adjusted HSBC Services Business Activity Index posted above the 50.0 no-change threshold that separates growth from contraction in January. The latest reading of 58.0 (up from 54.2 in December) pointed to a strong monthly rise in output that was the fastest in six months. Manufacturing production growth also strengthened, reaching an eightmonth high.

Both manufacturers and service providers reported faster increases in new work intakes during January. Overall, the rate of new business growth was the strongest since April 2011. Panellists cited general improvements in demand and market conditions as the main drivers of the rise in new orders.

Despite the sharp rise in new business, backlogs of work were little-changed during January. A modest rise in outstanding business at manufacturers was mostly offset by a depletion in the service sector. Highlighting this, the majority of respondents indicated no change in backlogs since December.

January data signalled a negligible increase in employment in the Indian private sector, despite marked growth of both new business and output. This, alongside the broadly flat level of work-in-hand, indicated that companies had adequate resources to meet the latest increase in new business.

Indian companies reported further marked increases in input costs during January. Service sector input price inflation was the weakest in three months, offsetting an acceleration in cost inflation at manufacturers. Nonetheless, the overall increase remained strong in the context of historical data. Prices charged rose at a marked overall rate that was little-changed since December.

Indian service providers were optimistic in January that business activity would increase over the next year. Growth is expected to be supported by improving market conditions and a rise in promotional activity. Moreover, the degree of positive sentiment was the highest since July 2011, with the relevant index posting its largest one-month gain in seven months.

### Comment

Commenting on the India Services PMI<sup>™</sup> survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the services sector rebounded in January at the fastest pace since July 2011 led by the financial intermediation and hotels & restaurant sub-sectors, and new business also flowed in at a faster pace. This helped boost sentiment among service sector companies about the 12 months ahead. The rebound in activity and continued increase in employment kept backlogs of work in check. While input costs rose at a slightly slower pace, sequential inflation remains high by historical standards. Moreover, prices charged continued to accelerate. Combined with the uptick in the manufacturing PMI, these numbers suggest it's premature for the RBI to cut policy rates and that it would have to await evidence of a significant and sustained decline in inflation and/or materialization of down side risks to growth."

## **Key points**

- Manufacturing and service sector output growth both strengthen
- Overall employment broadly unchanged
- Inflationary pressures remain elevated

## **Historical Overview**

# **HSBC India Composite Output PMI**



Sources: Markit, HSBC.





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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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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