HSBC India Services PMITM (with Composite PMI data)

Marked rise of Indian private sector business activity, albeit at slower rate

Summary

Indian private sector output rose markedly in February, with growth now sustained for 34 months. However, posting 57.8, the HSBC India Composite Index – which covers both the manufacturing and service sectors – fell from January's nine-month high of 59.6.

The seasonally adjusted HSBC Services Business Activity Index posted above the 50.0 no-change threshold that separates growth from contraction in February. The latest reading of 56.5 (down from 58.0 in January) pointed to a strong monthly rise in output, with expansion now sustained for four months. Manufacturing production growth also eased, but remained marked.

New business received by Indian service providers was reported to have increased markedly during February. The rate of growth was unchanged from the previous survey period. Panellists commented that new client wins had led to the rise in new business. Manufacturers reported a marginal strengthening in new order growth. The expansion of overall new work intakes accelerated slightly to reach an eleven-month high.

Backlogs of work in the Indian private sector increased marginally during February. Manufacturers reported a modest accumulation of work-in-hand, although this was partly offset by only a slight rise in outstanding business in the service sector.

February data signalled that employment in the Indian service sector was little changed on the month. Meanwhile, a moderate rate of job cuts was indicated by manufacturers. Overall staffing levels fell slightly. This followed two months where employment had increased marginally.

Input prices faced by companies in India rose at the weakest rate in four months in February. Nonetheless, the rate of cost inflation remained marked and above the long-run trend. Both manufacturers and service providers registered slower increases in input prices. Overall charge inflation also eased, with a faster rise in manufacturers' output prices offset by a slower increase in charges in the service sector.

Service companies in India were optimistic in February that activity would rise over the next year. Higher new work intakes, supported by marketing initiatives and the good quality of services provided, alongside ongoing improvements in market conditions are expected to boost activity. Confidence was at an eight-month high in the latest survey period.

Comment

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

"Activity in the service sector expanded at a slightly slower clip in February, but a continued strong increase in new business and an uptick in the sentiment gauge suggests that activity will remain well-supported in the months ahead. Encouragingly prices charged rose at a slower pace, but sequential inflation remained above the historical average. Input price inflation held steady and also remained above its long term trend, with wage pressures the main culprit. As service sector activity is expected to stay relatively brisk and inflation is likely to hover above the comfort zone, the RBI will have to approach the easing cycle cautiously. In addition, oil prices could have an impact on the timing as well as speed of rate cuts."

Key points

- Expansion of activity weakens, despite further sharp increase in new business
- Employment falls after two months of growth
- Inflationary pressures ease

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 economics@markit.com.

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