HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Services PMI™ (with Composite PMI data)

Growth of Indian private sector activity holds steady at below-trend rate

Summary

Latest data from HSBC pointed to a further expansion of Indian service sector activity in April. After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 52.8 in April, up slightly from 52.3 in March, signalling a below-trend rate of expansion of services output. Meanwhile, manufacturing *PMI*™ data showed a slightly slower expansion of factory output during the month. Consequently, the HSBC Composite Output Index (covering manufacturing and services) remained broadly unmoved at 53.8 in April.

The level of incoming new business placed at Indian service providers rose in April, extending the current period of expansion to three years. Growth of new orders was marked, albeit slower than those rates seen in the first two months of 2012. With new work placed at manufacturers rising at a faster rate in April, the rate of new business growth at the composite level accelerated since March.

Despite another month of new order growth, Indian service providers continued to report little pressure on their operating capacity, with volumes of work-in-hand (but not yet completed) falling marginally during the month. In contrast, a sharp rate of backlog accumulation was recorded by respondents to the manufacturing PMI survey.

Staff numbers in the service sector rose for a second successive month in April, albeit at a marginal rate. A similarly slight rate of job creation was registered in manufacturing.

Average input costs faced by service providers increased markedly in April, with the pace of inflation in line with the 2012 trend to date. Composite data pointed to a sharp increase in input prices that was the fastest in four months, reflecting stronger cost pressures at manufacturers.

Indian service providers continued to pass on higher costs to clients through increased output charges in April. The rate of inflation was solid, and unchanged since the preceding month. Meanwhile, manufacturers saw output price inflation jump to the highest in 13 months.

Service providers again expressed optimism regarding the one-year outlook for business activity, with around 54% of survey respondents anticipating activity levels to be higher in 12 months' time. As a result, the degree of positive sentiment jumped to the highest in ten months. Panellists widely reported that better economic conditions would lead to higher customer numbers over the coming 12 months.

Comment

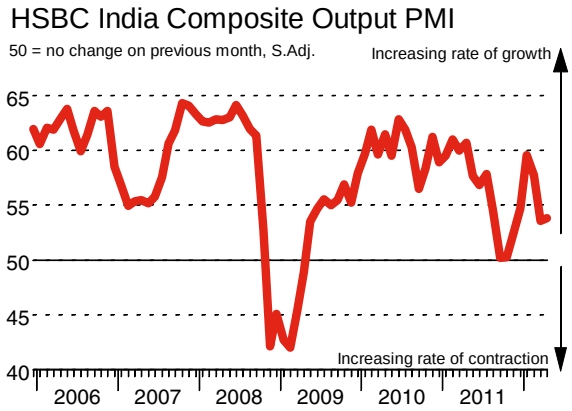
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Service sector activity accelerated slightly in April on the back of a rise in new business, which supported a marginal pick-up in sequential employment growth. Moreover, survey respondents were significantly more optimistic about the outlook over the coming 12 months. However, price pressures remained firm as rising input costs, mostly wages, were passed on to prices charged. Together with the April readings for manufacturing PMI these numbers suggest that inflation risks should remain a key concern for the RBI. This also means that the scope for further rate cuts is very limited, in our view, especially following the somewhat premature and too aggressive rate cut in April."

Key points

- Output growth supported by new business wins
- Private sector job creation remains marginal
- Service sector optimism jumps higher in April

Historical Overview



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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