HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Services PMI™ (with Composite PMI data)

Indian private sector activity rises at fastest rate in three months

Summary

May data pointed to a marked increase in Indian service sector activity, as signalled by a rise in the headline HSBC Business Activity Index from 52.8 in April to a three-month high of 54.7. Meanwhile, manufacturing *PMI*™ data showed factory output rising at a strong rate in the latest survey period. Consequently, the HSBC Composite Output Index (covering manufacturing and services) posted 55.3 in May, up from 53.8 in the previous month.

Behind the latest expansion of service sector activity was a sustained increase in new work. The pace of new business growth was marked, albeit slower than the long-run trend. This, coupled with a strong expansion of new orders placed at manufacturing firms, meant that overall new work increased sharply in May.

May data pointed to an increase in the volume of work-in-hand (but not yet completed) held at Indian service providers' units. Although the most marked in eight months, the rate of backlog accumulation was only marginal. Goods producers recorded a stronger rise in work outstanding than their service sector counterparts.

The latest survey findings showed a continued expansion of India's service sector workforce. However, the rate of jobs growth remained marginal. Composite data also showed a slight expansion of private sector staff numbers.

Input price inflation in the Indian service sector accelerated to a strong rate amid reports of higher prices paid for energy, fuel and raw materials. That said, the latest increase in average costs was slower than that recorded by manufacturing firms.

Indian service sector firms continued to pass on higher average costs to clients in May, as highlighted by a strong increase in output prices. The rate of output charge inflation was the strongest in four months, and sharper than the long-run trend for the survey.

In line with the trend observed throughout the series history, Indian service providers were optimistic regarding the one-year business outlook in May. The degree of confidence was strong, and the most marked in 15 months. Additionally, the Business Expectations Index has now risen more than 14 points since posting a near-record low in March. Service sector firms linked positive sentiment to expectations of new business wins and better economic conditions. A number of companies also expect business expansion plans to support activity growth in the coming year.

Comment

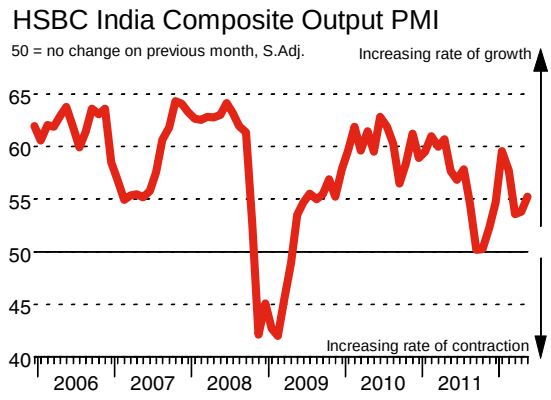
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Following last week's release of the weaker than expected Q1 GDP number, the May PMI reading for the service sector was more encouraging. Activity re-accelerated, new orders came in at a faster pace, and employment continued to increase. As a consequence businesses were more optimistic about the outlook for the coming 12 months. However, the inflation readings for input and output prices accelerated again and remain high by historical standards. While the more backward-looking GDP numbers suggest rising growth risks and pressures on the RBI to cut rates, these numbers suggest that the case may not necessarily be that clear-cut and, certainly, that there is no room for aggressive monetary policy easing over the near term."

Key points

- Marked increase in overall business activity signalled
- Job creation remains marginal at the composite level
- Service sector optimism the highest in 15 months

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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About PMIs:

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