HSBC Purchasing Managers' Index™ Press Release

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HSBC India Services PMITM (with Composite PMI data)

Indian private sector output expands at fastest rate since February

Summary

The health of the Indian private sector continued to improve in June, according to the latest PMI data. The HSBC India Composite Output Index rose in June, posting 55.7 up from 55.3 in May. The latest reading pointed to the fastest expansion of output in four months.

Growth reflected rising output at both manufacturers and service providers. After adjusting for seasonal factors, the headline HSBC Services Business Activity Index - which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago - posted 54.3 in June, down from 54.7 in May. Output increased solidly as order book volumes continued to expand. Manufacturing production, meanwhile, increased at the sharpest pace since February.

New business growth in the service sector remained broadly in line with that in the previous month and the current expansionary period was extended to three years and two months. Composite data pointed to increasing new orders in June, extending the current expansionary period to 38 successive months.

Service providers increased staffing levels during June, marking a four-month sequence of expansion. The increase in payroll numbers was the strongest since June 2011 but was below the long-run average for this series. The rate of job creation at manufacturers also accelerated, leading to the size of the private sector workforce increasing at the fastest pace for 12 months.

Input prices rose sharply at Indian services companies in June, with the rate of increase remaining exactly the same as the previous month. The Composite Input Prices Index posted above the no-change 50.0 mark, signalling a further month of rising input costs. This has been the case throughout the past 39 months.

Output prices have increased in the services sector in each month since November 2010. Composite data indicated that charges rose sharply in June, with the rate of increase the strongest since July 2008.

Business expectations remained positive at services companies in June. Optimism has been recorded in each month since the survey began in December 2005. Although the level of optimism dipped to the lowest since March, sentiment was still above the long-run series average.

Comment

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

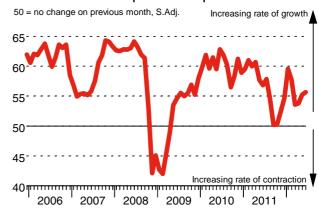
"While service sector activity grew at a slightly slower pace, new orders grew faster and this should hold up activity in coming months. Moreover, employment picked up, which helped reduce the backlogs of work, and businesses remained relatively optimistic about the outlook for the coming 12 months, although sentiments eased a bit from the previous month. However, the inflation readings for input and output prices were broadly unchanged from May and remain high by historical standards. Together with manufacturing PMI, these numbers suggest that it is hard to build a strong case for policy rate cuts in the near term."

Key points

- Further marked rise in new business
- Input price inflation recorded for thirty-ninth month running
- Job creation remains moderate

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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